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Indian Banks' Association

Enhanced Access & Service Excellence

EASE REFORMS FOR PUBLIC SECTOR BANKS

CLEAN & SMART Banking for Aspiring India

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Indian Banks' Association

Indian Banks' Association (IBA), the only advisory body for banks in India, was set up in 1946 as an association to discuss vital issues of Banks. The onward journey of IBA has been progressive and enriched by the development of India's banking sector since independence. Having bestowed with the status of the "torch bearer" for the banking industry, IBA has initiated several path breaking policies during the last seven decades which have eventually transformed the banking sector. Over a period of time IBA has evolved as the "Voice of the Indian Banking Industry". At present, IBA has 252 Members, 145 Ordinary Members comprising Public, Private, Foreign and Cooperative Banks and 107 financial institutions and Banking related organizations as Associate Members.

CLEAN Banking

Clean credit

Leveraging data

Ensuring accountability

Action against defaulters

NPA recovery

SMART Banking

Speedy

Multi-channel reach

Accessible & affordable

Responsive

Technologically enhanced

Indian Banks' Association

EASE REFORMS FOR PUBLIC SECTOR BANKS

CLEAN & SMART Banking for Aspiring INDIA

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TransUnion CIBIL

Kantar IMRB

CONTENTS

EXECUTIVE SUMMARY

OVERVIEW

Over the last decade, Public Sector Banks (PSBs) witnessed excessive build-up of stress in their loan portfolio. Much of the stress remained hidden in the form of Standard Restructured Assets (SRA) as a result of RBI guidelines issued in January 2009[1] granting special regulatory treatment for classifying restructured accounts as standard accounts under certain conditions. With the recognition of the stress since 2015, the adverse impact of the hidden stress on key financials became manifest. Multiple drivers have been attributed by various observers for the increase in stress, including, *inter alia*, aggressive lending, lack of robust lending practices, wilful defaults, frauds, economic slowdown and misconduct in certain cases[2].

To address the problem, since 2015, the Government has implemented a comprehensive 4R's strategy of Recognising NPAs transparently, Resolution and recovery, Recapitalising PSBs and Reforms in the financial ecosystem and PSBs. The first three R's are aimed at cleaning the balance sheets of banks. The reforms are aimed at systemic change to address root causes so that the risk of recurrence of excessive stress is minimised. The reforms address key areas in PSBs — *viz.*, governance, prudential lending, risk management, technology-driven checks and controls and **SMART** banking — as well as transparency and accountability in the wider financial ecosystem.

EXHIBIT 1 | 4R's Strategy and progress since March 2015

Recognise NPAs transparently – SRA reduced from 7.0% to 0.5%[1]

Resolve and recover value from stressed assets - Creditor–debtor relationship altered, ₹2.87 lakh crore recovered[2]

Recapitalise PSBs - Strengthening of capital base by ₹3.19 lakh crore[3]

Reforms
- Transparency and accountability in the wider financial system – e.g., accounts of 3.38 lakh inoperative (shell) companies frozen, NFRA operationalised
- PSB governance – e.g., key appointments through Banks Board Bureau, CMD position bifurcated
- Prudential lending – e.g., enhanced appraisal process in PSBs for project loans
- Risk Management – e.g., mandatory checking of wilful defaulters
- Technology-driven checks and controls – e.g., GST, SWIFT integration with CBS
- **SMART** banking – e.g., digital infrastructure, digital lending

1.Till Q3FY19 2.Includes recovery from written-off accounts; Figures till Q3FY19; Provisional figures for Q3FY19 as per RBI 3. Includes balance ₹5,042 crore to be infused in FY19
Source: RBI, Ministry of Finance, **EASE** Reforms Index

As a result of the 4R's strategy, recognition of hidden stress as NPA has been largely completed, the creditor-debtor relationship was altered, significant recovery has been effected and significantly higher provisions built up against NPAs. With this, PSB balance-sheets are becoming healthier. Through systemic improvements and institution of checks and controls, the reforms are creating a strong foundation for **CLEAN & SMART** banking.

As a part of the reforms, in January 2018, the Government and PSBs jointly committed to and launched a common PSB Reforms Agenda for Enhanced Access & Service Excellence (**EASE**), comprising 30 Action Points across six themes. Progress of PSBs against the PSB Reforms **EASE** Agenda has been rigorously tracked through a first of its kind **EASE** Reforms Index. The **EASE** Reforms Index measures PSB performance on 140 metrics[3] against respective benchmarks and offers a mechanism for continuous improvement through transparent reporting on forward-looking PSB reform priorities.

This report is intended as the first of an annual publications series on progress made by PSBs on **EASE** reforms. Between annual publications, quarterly updates on the **EASE** Reforms Index will be published to foster healthy competition and learning among PSBs. The report also identifies areas where PSBs need to sustain momentum to achieve better results.

[1] Source: RBI/2008-09/340 - DBOD.BP.No.104/21.04.132/2008-09
[2] Source: Lok Sabha Starred Question No. †*179 by Shri Kirti Azad and Dr Bharatiben D. Shyal, answered on 21 December 2018
[3] **Full list of 140 metrics published on IBA website - www.iba.org.in**

THE 4R's STRATEGY TO ENABLE CLEAN AND SMART BANKING

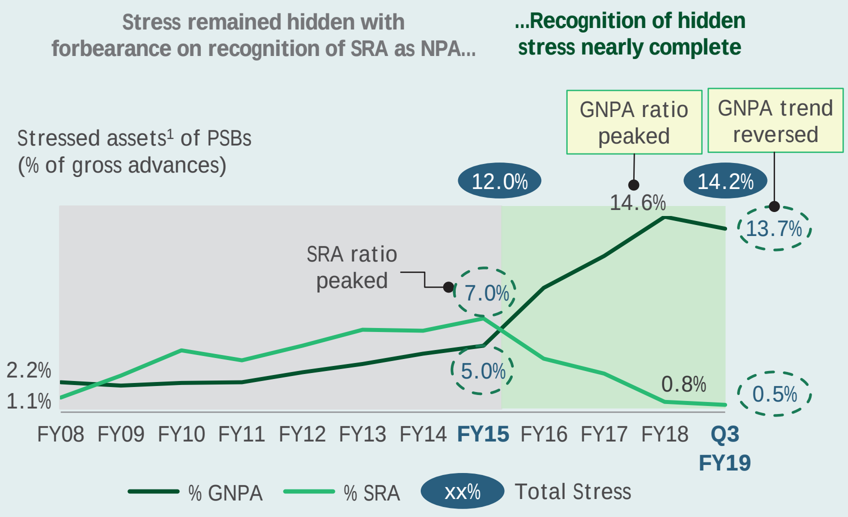
Recognition

NPAs recognised transparently

As a result of the aforementioned factors that led to build-up of excessive stress in loan portfolios of banks since FY09, by the end of FY15, total stressed assets of PSBs had risen to 12.0 percent of gross advances. Out of this, 7.0 percent of gross advances were SRAs, which remained hidden.

As a result of AQR, subsequent transparent recognition of stressed assets as NPA by PSBs and withdrawal of forbearance in asset classification of restructured loans, SRAs of PSBs decreased from the peak of ₹3.93 lakh crore (7.0 percent of gross advances) by the end of FY15 to ₹0.34 lakh crore (0.5 percent of gross advances) by the end of Q3FY19[4]. Over the same period, gross NPAs of PSBs increased from 5.0 percent to 13.7 percent of gross advances.

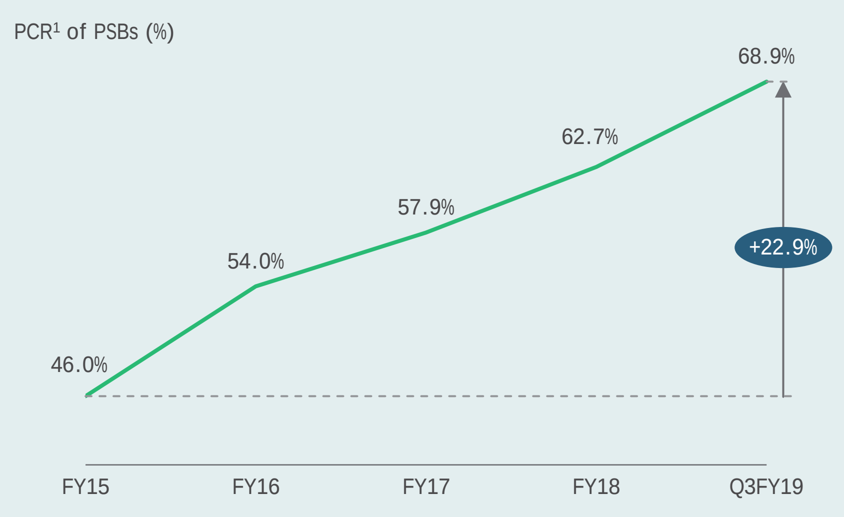
EXHIBIT 2 | Stress recognition in PSBs almost complete



1. Standard restructured assets for domestic operations till FY14 and for global operations post FY14
Source: RBI, Ministry of Finance

Provision bolstered to meet expected losses

EXHIBIT 3 | PSBs increased NPA provision significantly



1. PCR including Technically Written Off accounts, includes provisional numbers for Q3FY19
Source: RBI

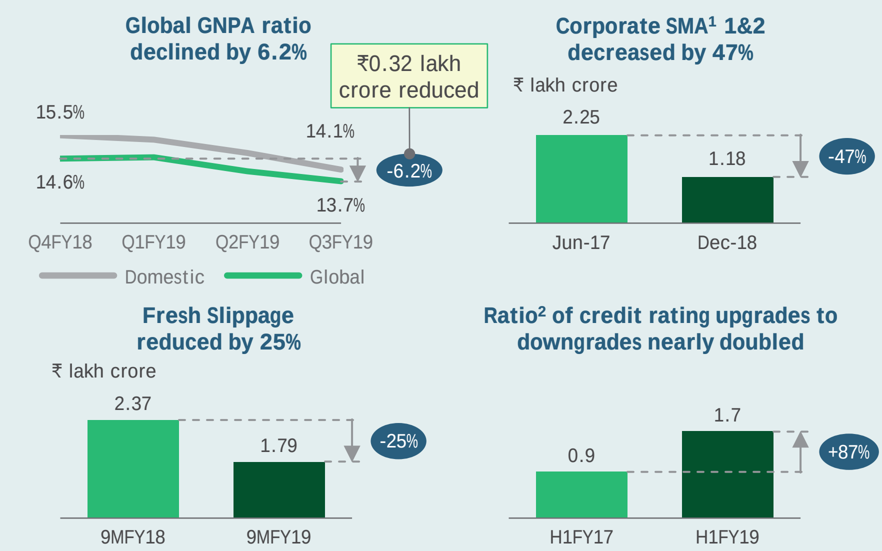
Alongside recognition, PSBs bolstered provision against NPAs to absorb potential future losses. PSBs have made provision of about ₹8.12 lakh crore since recognition began in FY15 till the end of Q3FY19[4]. As a result, the Provision Coverage Ratio (PCR) of PSBs (inclusive of provision held against technically written-off accounts) has registered substantial improvement, from 46.0 percent by the end of FY15 to 68.9 percent by the end of Q3FY19.

[4] Source: RBI

Reducing stress in bank loan portfolios

With stress recognition largely completed, significant resolution under the Insolvency & Bankruptcy Code (IBC) and reduced slippages, GNPAs in global operations of PSBs have declined from ₹8.96 lakh crore by the end of FY18 to ₹8.64 lakh crore by the end of Q3FY19. Domestic GNPA ratio reduced by 70 basis points in Q3FY19, against RBI projection of 50 basis point YOY reduction by H1FY20[5].

EXHIBIT 4 | Declining GNPA trend, improvement in stress indicators



1. Special Mention Accounts with o/s amount above ₹5 crore 2. Twelve month rolling ratio for all entities
Source: RBI, CRISIL, BCG analysis

Further, there are indications of reduced slippage into NPA in future as well, which coupled with the accelerating trend in resolution of NPAs may be expected to sustain the declining trend in NPAs. Reduced slippages in future are indicated by reduction in fresh slippage in H1FY19 by 25 percent over that in H1FY18, 47 percent reduction in SMA 1&2 in December 2018 as compared to June 2017 and near doubling of the ratio of credit rating upgrades to downgrades on 12-month rolling basis from 0.9 in H1FY17 to 1.7 to H1FY19 as per a leading credit rating agency's data[6].

In order to further reduce NPAs, banks are putting in place Board committee-approved roadmaps and are carrying out root cause analyses to identify and address systemic deficiencies.

Resolution

Record growth in NPA recovery

Reforms in the insolvency and bankruptcy framework and recovery processes within PSBs are leading to large-scale NPA resolution and recovery. Historically, NPA resolution in India was fraught with challenges due to the corporate debtor remaining in control of its affairs. This has been addressed through enactment of IBC, which has put creditors in control of the resolution process. IBC has also provided a comprehensive and time-bound framework for resolution and incorporated a number of best practices from similar laws in other countries[7].

Alongside the change effected in creditor-debtor relationship through IBC, PSBs have focussed upon internal reforms to intensify resolution in and recovery from stressed accounts. In many PSBs, action in respect of high-value stressed accounts resided across different branches. Branches typically do not have dedicated and specialised resources and also face constraints in timely decision-making as they have to secure higher-level approvals. Over the past year, under the PSB Reforms **EASE** Agenda, banks have effected a number of reforms:

- All 21 PSBs have set up dedicated Stressed Asset Management Verticals (SAMVs) with overall control in respect of large-value[8] NPA accounts.

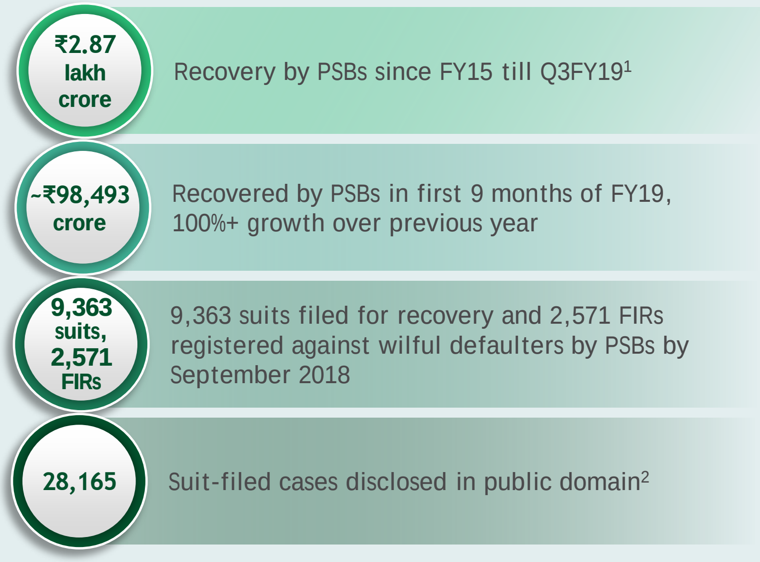
[5] Source: Financial Stability Report by RBI, December 2018
[6] Source: CRISIL
[7] Source: Ease of Doing Business Report by World Bank 2017, 2019
[8] Large NPAs classified with threshold of ₹25 crore or ₹50 crore, as set up by different PSBs

- 89 percent of large-value NPA cases stood transferred to SAMVs by December 2018, as compared to 35 percent in March 2018.
- 90 percent of SMA 1&2[9] cases were under monitoring by SAMVs by December 2018, as compared to 15 percent in March 2018.

PSBs have also taken up time-bound checking of all NPA cases above ₹50 crore from the angle of wilful default and fraud, coupled with action to expedite recovery and deter such acts, thereby contributing to a responsible credit culture. They have filed 9,363 suits and registered 2,571 FIRs against wilful defaulters. Banks are also defining step-specific time limits for recovery and action against defaulters in all NPA cases having amount outstanding above ₹50 crore.

Credit Information Companies also have disclosed 28,165 suit-filed cases on their website which is acting as a deterrent against credit default and expediting recovery across the banking system.

EXHIBIT 5 | Impact of resolution initiatives



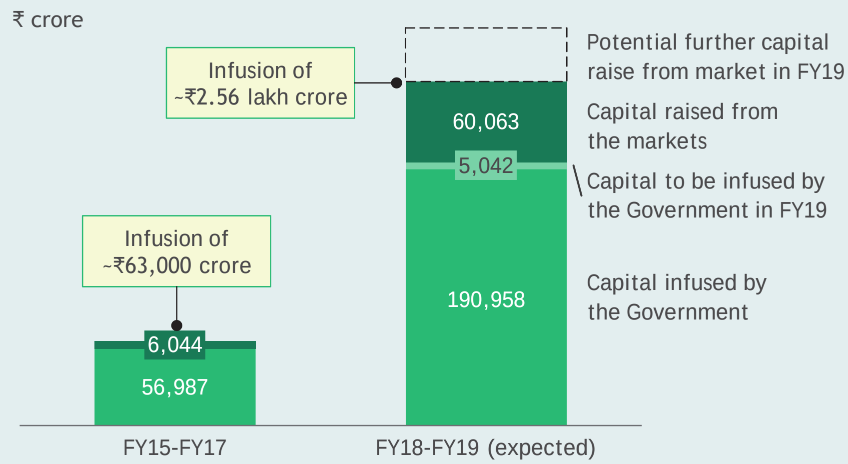
1. Includes provisional numbers for Q3FY19 2. As on 30 September 2018 for all banks
Source: RBI, Ministry of Finance, **EASE** Reforms Index, TransUnion CIBIL, Lok Sabha Starred Question No.: † *64 by Shri Ram Tahal Choudhary, Shri Naranbhai Kacchadiya

Enabled by the change in creditor-debtor relationship and reforms in banks, PSBs have recovered ₹2.87 lakh crore from April 2015 till December 2018, including record recovery of ₹98,493 crore in FY19 till Q3, which is 100 percent growth over the same period in the previous year.

Recapitalisation

PSB balance-sheets strengthened

EXHIBIT 6 | Capital infusion in PSBs has accelerated since FY17



Source: Ministry of Finance

Significant recapitalisation has been initiated by the Government to strengthen the capital base of PSBs, which was depleted as a result of transparent recognition of stressed accounts as NPAs. The Government announced Indradhanush plan in August 2015 to infuse ₹70,000 crore over four financial years[10]. The results of AQR in December 2015 revealed higher than anticipated NPAs, necessitating further announcement by the Government of recapitalisation amounting to ₹2,11,000 crore in October 2017, including the

[9] SMA 1 & 2 with threshold of ₹25 crore or ₹50 crore, as set up by different PSBs
[10] Source: Ministry of Finance

remaining outlay of ₹18,139 crore under Indradhanush plan and mobilisation of about ₹58,000 crore from markets by PSBs. The envisaged capital infusion has since been enhanced by ₹41,000 crore in January 2019.

The Government has infused nearly ₹2.5 lakh crore in PSBs, from FY15 until February 2019. Since FY15, PSBs have mobilised nearly ₹66,000 crore by raising fresh equity capital and through monetisation of non-core assets. Thus, total recapitalisation of ₹3.14 lakh crore has been completed in PSBs from FY15 until February 2019 and the remaining committed amount will take the sum to ₹3.19 lakh crore by the end of FY19.

With the capital infusion by the Government and improvement in their financial performance, PSBs are expected to be better positioned to raise capital from markets as a result of improved investor attractiveness, with corresponding valuation gains for all shareholders.

Reforms

Driving CLEAN & SMART banking

Along with recognition, resolution and recapitalisation, reforming banks comprehensively was imperative for transforming PSBs to drive **CLEAN & SMART** banking.

The Government introduced a number of system-wide reforms as part of the 4R's strategy. In order to bring transparency and accountability in the larger financial system, 2.26 lakh inoperative ("shell") companies were identified for deregistration and their bank accounts were frozen by the end of FY18. The process has continued in FY19 with freezing of bank accounts of an additional 1.12 lakh companies[11]. The Government also operationalised National Financial Regulatory Authority to regulate quality of audit and activities of compliance professionals.

For strengthening risk management in PSBs and deterring wilful default, PSBs were advised to collect passport details of borrowers[12] and to check wilful default in large NPA[13] accounts. Further, PSB CEOs were empowered to request issuance of look-out circulars. The Government also introduced legislation, enacted as the Fugitive Economic Offenders Act, 2018, for effective and deterrent action against economic offenders who remain outside the jurisdiction of Indian courts to avoid prosecution.

With the rollout of GST, a centralised GST databank was created, which captures granular invoice-level data along with triangulation mechanisms and which is accessible electronically on the basis of user consent. This will enable banks to access better quality independent data in addition to the information supplied by borrowers as part of loan proposals, thereby mitigating the risk of misrepresentation and fraud. For e.g., psbloansin59minutes.com has linked various data points — *viz.*, credit score from credit information companies, income-tax data, GST data, etc. and has enabled banks to drastically reduce the time taken for in-principle approvals for loans.

Along with initiatives for cleaning up the system, multiple steps have been taken to improve PSB governance. These include, *inter alia,* bifurcation of the CMD position into those of non-executive Chairman (NEC) and Managing Director (MD) & CEO; selection of NECs and Whole-Time Directors (WTDs) by the Banks Board Bureau that has a majority of non-government members, widening of the talent pool for selection of bank MDs and performance-based extension in the terms of office of WTDs.

The Government also took multiple steps to usher **SMART** banking, including the creation of infrastructure supporting digital banking and payments, last-mile access to banking services (for e.g., online inter-operable BCs / Bank Mitras, UPI, AePS, e-KYC, e-Sign, digital locker), roll-out of Jan-Dhan – Aadhaar – Mobile (JAM) trinity, enabling Direct Benefit Transfers and enabling industry-wide digital platforms for digital lending, *viz.*, psbloansin59minutes.com, TReDS platform and UdyamiMitra.com.

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[11] Until 20 December 2018; Source: ROC, Ministry of Finance
[12] Loans with sanction amount greater than ₹50 crore
[13] Amount outstanding above ₹50 crore

Enabling transformative reforms through EASE Reforms Index

The recommendations made in PSB Manthan, organised in November 2017, including around 250 Whole-time Directors (WTDs) and senior executives of PSBs, and Government representatives formed the basis for the formulation of a common PSB Reforms Agenda to drive Enhanced Access and Service Excellence (**EASE**) across six themes of transformation viz., Customer Responsiveness, Responsible Banking, Credit Off-take, UdyamiMitra for MSMEs, Deepening Financial Inclusion and Digitalisation and Developing Personnel for Brand PSB.

EXHIBIT 7 | Salient aspects of EASE Reforms Index

- Index for continuous measurement with objective assessment of progress on reforms with quantified evaluation, ranking, inter-bank comparison, bank-specific scorecards and benchmarks
- Robust design methodology with intensive involvement of senior PSB executives
- High ownership as Action Points defined by PSBs themselves, 20% weight in evaluation of the Whole-Time Directors reporting to CEO
- Mechanisms instituted for self assessment and improvement through transparent and objective methodology
- Sharing and replicating best practices across PSBs

PSB Reforms **EASE** Agenda aims to institutionalise **CLEAN & SMART** banking in PSBs through a Board-approved strategy and quarterly Board reviews, which are enabled by a comprehensive, independent and benchmarked measurement of performance through the **EASE** Reforms Index. PSB Reforms EASE Agenda envisaged making the management accountable for execution of Reforms Agenda. Towards this objective, 20 percent weight in the annual performance appraisal of WTDs reporting to the bank's CEO has been earmarked for implementation of the Agenda as per evaluation done by the bank's Board.

A steering committee comprising select WTDs of PSBs, under the aegis of Indian Banks' Association (IBA), is monitoring the design and implementation of **EASE** Reforms Index. Design and implementation has followed a rigorous process with intensive involvement of senior PSB executives. **EASE** Reforms Index has been finalised after extensive deliberations in 6 steering committee meetings and 12 nodal officer workshops. As part of this process, over 250 objective metrics have been defined to track and analyse progress on the Reforms Agenda, of which 140 are incorporated in the **EASE** Reforms Index. The Index is calculated using data from diverse data sources in addition to PSBs' own data, with rigorous cross-checking to ensure data consistency. In addition, in-depth reviews were held by officials of Department of Financials Services (DFS) with WTDs and senior executives in PSBs to track progress on **EASE** Reforms Agenda and to identify best practices for sharing with other PSBs. Inputs from these reviews were also included during the implementation phase.

The Index provides all PSBs a comparative evaluation showing where banks stand vis-à-vis benchmarks and peers on the Reforms Agenda. The Index follows a fully transparent scoring methodology, which enables banks to identify precisely their strengths as well as areas for improvement. Through periodic updates and by providing bank-specific scorecards and inter-bank comparisons, all PSBs are enabled to keep track of their progress on key reform priorities across time. The goal is to continue driving change by spurring healthy competition among PSBs and also by encouraging them to learn from each other. As a step in this direction, IBA organised two workshops for sharing of best practices among PSBs and more workshops will be organised in future. In addition, bank-level best practices identified from EASE Reforms Index have been recommended to other PSBs. The bank-level best practices are detailed in the **EASE** Reforms Index chapter of this report. The **EASE** Reforms Index has been computed as at the end of Q3FY19, with FY18 as the baseline to analyse progress during the intervening period.

Foundation laid for CLEAN banking

The reforms undertaken for institutionalising clean credit culture have led to PSBs strengthening their lending policies and increasing efficiency in consortiums by limiting the number of consortium members by way of minimum 10 percent exposure for participation. The reforms have also led to PSBs putting in place a robust credit appraisal mechanism that leverages 5-6 diverse independent data sources for large (greater than ₹50 crore) credit appraisals. They are also ensuring better accountability by segregating appraisal, monitoring and recovery roles in large-value accounts (greater than ₹50 crore). To deter acts of wilful default, PSBs have proactively checked more than 650 NPA cases above ₹50 crore from the angle of wilful default and have also initiated action. The reforms have also led to PSBs adopting a focussed approach to NPA recovery and SMA monitoring by setting-up dedicated SAMVs. As of December 2018, 89 percent of NPA and SMA 1&2 accounts were managed by SAMVs as compared to 30 percent at the end of Q4FY18[14]. Focussed measures undertaken to expedite recovery have led to PSBs effecting record recovery of ₹98,493 crore in FY19 till Q3, as compared to ₹48,497 crore till Q3 in FY18. To step up recovery from auctioning mortgaged properties of NPA cases where action has been initiated under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, IBA and PSBs have set up e-विक्रय platform as a single window for information on property auctions across all PSBs. In NPA cases above ₹5 crore, cases with SARFAESI action initiated accounted for more than ₹3.8 lakh crore outstanding as on December 2018.

EXHIBIT 8 | CLEAN banking reform outcomes

Clean credit	• Strengthened lending processes in all 21 PSBs to address identified gaps • Minimum 10% share in consortiums by all PSBs, leading to smaller, efficient consortiums
Leveraging data	• PSBs check 5-6 independent data sources for large credit appraisals
Ensuring accountability	• 100% segregation of pre- and post-sanction roles with respect to large loans
Action against defaulters	• 650+ high-value NPA accounts[1] proactively checked for wilful default, action initiated
NPA recovery	• Dedicated SAMV operationalised in all PSBs • 89% NPA, SMA 1&2 managed by SAMVs in Q3FY19, up from 30% in Q4FY18 • Recovery of ₹98,493 crore[2] till Q3FY19, up from ₹48,497 crore in the same period in the previous year

1. Outstanding amount greater than ₹50 crore as on 30 June 2018 2. Includes provisional numbers for Q3FY19
Source: RBI, **EASE** Reforms Index

Steering SMART banking

The reforms undertaken for driving **SMART** banking have led to improved customer ease by enabling 'Banking from the comfort of home and mobile' and 'Near-home banking'. It has increased availability of a wider set of services through non-branch channels and availability of regional languages on mobile banking and call centre channels. PSBs provide an average of 20 services on home/mobile based platforms and 87 percent customers of large PSBs can speak in their regional language with call centres. This has resulted in higher adoption of these channels, as evident from over 80 percent YOY growth in transactions through these platforms. PSBs are also enabling 'Near-home banking' by providing 18 branch equivalent services through Bank Mitras. To improve ease of transaction for the differently-abled at ATMs, PSBs have enabled 77 percent of their ATMs with built-in functionalities for the differently abled, for e.g., Braille keypads. A survey of more than 11,000 PSB customers across geographical regions, conducted as part of **EASE** Reforms Index, shows customers are mostly satisfied with the service quality at PSBs, while acknowledging room for further improvement. While there is significant variation across PSBs in terms of business mix and customer segments, 19 PSBs have scored more than 8/10.

EXHIBIT 9 | SMART banking reform outcomes

Speedy	• 25% reduction in TAT for retail loan processing in six months[1]
Multi-channel reach	• PSBs offer avg. of 20 services through home/ mobile based platforms[2]; 80%+ YoY growth in transactions in Q3FY19[3] • 18[4] branch equivalent services offered by Bank Mitras
Accessible & Affordable	• 96% of villages identified without banking outlets within 5 Km. covered with outlets[4] • ₹6.28 lakh crore DBT through AePS and other platforms[5] • DBT of ₹25,000 crore by end of FY19 and ₹75,000 crore in FY20 under PM-KISAN • 34.4 crore PMJDY accounts opened since FY15[4] • 77% of ATMs have built-in functionalities for ease in transaction for differently abled customers[5]
Responsive	• 87% customers of large PSBs can speak in their regional language with call centres[5] • 19 PSBs scored above 8/10 in customer satisfaction survey • Avg. 7 day TAT for grievance redressal[6]
Technologically enhanced	• 1.12 lakh loans sanctioned (in-principle) through psbloansin59minutes[7] • Bills discounted on TReDS constitute 11% of total bills discounted by PSBs[8]

1. In H1FY19; includes housing, vehicle, education and personal loans 2. Platforms include call centre, mobile banking and Internet banking 3. Includes financial and non financial transactions 4. As on February 2019
5. As on December 2018 6. In Q3FY19, excludes complaints resolved within 24 hours 7. Since launch, until December 2018 8. In Q3FY19
Source: **EASE** Reforms Index, TransUnion CIBIL, Ministry of Finance

The reforms have also led to last-mile access to banking services, ensuring financial inclusion and direct benefit transfers leveraging JAM trinity.

[14] Cumulative for all PSBs

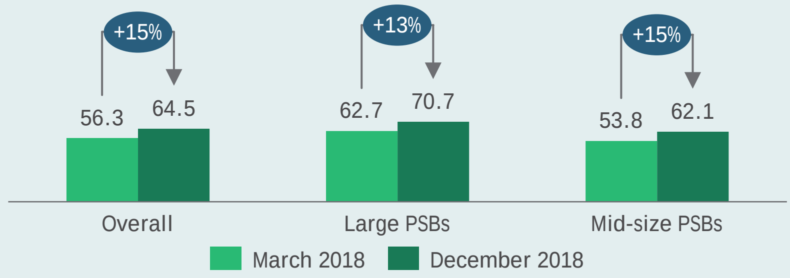
As of February 2019, PSBs have played a significant role in setting up banking outlets in 96% of the 40,036 villages which did not have a banking outlet within 5 Km. radius until December 2017. 34.4 crore PMJDY accounts have been opened till 13 February 2019 with an average outstanding balance of ₹2,647. More than ₹6.28 lakh crore DBT have been transferred to all beneficiaries, including PMJDY account holders, till Q3FY19. Additionally, Pradhan Mantri Kisan Samman Nidhi Yojana (PM-KISAN), launched in February 2019 with an expected support of ₹25,000 crore by the end of FY19 and ₹75,000 crore in FY20, will utilize DBT to provide direct income support to nearly 12 crore Small and Marginal Farmers[15].

Leveraging of technology by PSBs has led to an improvement in the loan appraisal processes, resulting in 25 percent reduction in turnaround time for retail loans in H1FY19. In MSME lending, PSBs are adopting digital platforms with 1.12 lakh in-principle sanctions through psbloansin59minutes.com and 11 percent of the bills discounted through TReDS platform in Q3FY19.

Progress seen in EASE Reforms Index

As on March 2018, the six larger PSBs[16] scored 8.9 points higher than the remaining 15 mid-size PSBs, indicating their stronger starting position. Both the cohorts have shown a significant 13-15 percent improvement in the Index from March to December 2018.

EXHIBIT 10 | Improvement in EASE Reforms Index



Note: Normalised scores, out of 100

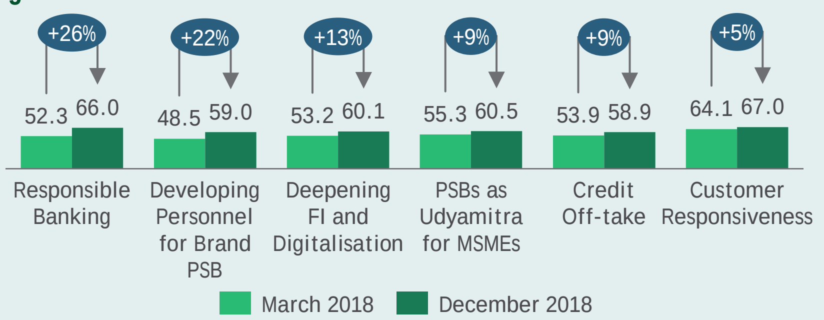
Responsible Banking theme saw the highest improvement of 26 percent from March 2018 to December 2018. This has resulted from the significant progress made in the areas of setting up and operationalisation of SAMV, strengthening of policies and processes to improve credit appraisal and monitoring and improved risk management practices.

Developing Personnel for Brand PSB theme witnessed a 22 percent improvement during this period. This has resulted from the initiatives taken by PSBs on introduction of the job families system, implementation of role-based e-learning programs and strengthening of performance management IT systems.

Deepening Financial Inclusion and Digitalisation theme saw notable improvement in financial inclusion through scale-up of coverage under PMJDY and social security schemes by PSBs. They have made significant progress in ensuring that every village has a banking outlet within 5 Km. radius. They are also making efforts to ensure that appointed Bank Mitras are active in their areas and offer near-home delivery of all 18 services that were hitherto offered from branches and which have been demonstrated as deliverable through Bank Mitras by any bank.

In Digitalisation, PSBs have shown 80% YOY growth in digital payments[17], enabled through initiatives such as close to universal seeding of accounts with

EXHIBIT 11 | Improvement across themes in PSB Reforms EASE Agenda



Note: Normalised scores, out of 100

[15] Source: Interim Budget 2019-2020
[16] Large PSBs include State Bank of India, Punjab National Bank, Bank of Baroda, Canara Bank, Union Bank of India, Bank of India. Mid-size PSBs include all other 15 PSBs
[17] Includes card transactions, NEFT, RTGS and UPI; growth from November 2017 to November 2018; Source: RBI, MeitY

mobile (76%) and Aadhaar (85%) numbers.

Credit Off-take theme saw PSBs further improving comfort for borrowers, building upon improvement already registered in India's 'Getting Credit' global rank from 29 in 2018 to 22 in 2019 under World Bank's Ease of Doing Business index, through measures such as rationalising decision making layers in loan appraisal, reducing turnaround time in retail loan segments and introducing digitalised tracking of application status.

UdyamiMitra for MSMEs theme saw PSBs improving experience for MSME customers by appointing relationship managers for top accounts in MSME branches and improving lending process through dedicated MSME vertical and loan processing centres. PSBs have also contributed significantly in driving MSME credit through MUDRA loans. In addition, all PSBs registered themselves on TReDS platform, which enables online bill discounting for MSME customers. They are showing early signs of adoption of the platform with volume of discounting on the platform growing from ₹148 crores in Q4FY18 to ₹527 crores in Q3Y19.

PSBs have also shown strong performance on metrics linked to Customer Responsiveness , as reflected in overall positive feedback from customers (8.3/10), increase in transactions through call centre, mobile and Internet banking channels (over 80% YOY growth in Q3FY19) and strengthening of grievance redressal framework (17% reduction in complaints in H1FY19). Improvement in this theme is highly dependent on investments in call centre, mobile banking and internet banking. As PSBs have initiated action on improving the functionality, usability and customer convenience of using these channels, significant further progress is expected by the end of FY20.

Performance of banks under Prompt and Corrective Action (PCA) framework

PSBs under PCA framework have taken concrete steps to improve their performance across the various dimensions of EASE Reforms Agenda and especially in the theme of Responsible Banking. Their overall score improved by 16 percent as compared to 13 percent for non-PCA banks, driven by narrowing of gap in scores on Responsible Banking theme. This reduction in gap on Responsible Banking theme has resulted from focussed approach adopted by PCA banks to deleverage their balance sheet, improve lending practices and expedite recovery. PCA banks reduced their credit RWAs to gross advances ratio by 3.7 percent in the H1FY19. This reduction in their overall credit risk not only lowers their capital requirement but also enables them to extend more credit in key sectors of growth. PCA banks have also made significant progress in the area of setting up and operationalisation of SAMV, strengthening of policies and processes to improve credit appraisal and monitoring and improvement in risk management practices. As a result of their focussed efforts, their NNPA ratio reduced from 11.5 percent in March 2018 to 10.3 percent in December 2018 and they effected record recovery of ₹33,405 crore in FY19 till Q3, as compared to ₹20,526 crore over the same period in the previous year.

EXHIBIT 12 | Improvement in performance of PCA banks

- 16% Improvement in overall **EASE** Reforms Index score as compared to 13% for non-PCA banks[1]
- 3.7% reduction in credit RWAs to gross advances ratio in H1FY19
- NNPA ratio reduced from 11.5% in March 2018 to 10.3%[2] in December 2018
- ₹35,405 crore recovered till Q3FY19 as compared to ₹20,526 crore recovered in the same period in the previous year

3 out of 11 banks are out of PCA restrictions

1. Score improvement in December 2018 Index as compared to March 2018 Index 2. Net NPA as a percentage of net advances
Source: RBI, EASE Reforms Index

Due to the improved financial and operational performance, three out of eleven banks are out of the ambit of PCA restrictions effective February 2019[18].

Harnessing scale and synergy benefits on the foundation laid by the 4R's strategy

The asset classification, provision coverage and capital positions of banks varied considerably prior to implementation of 4R's strategy. As a result of the 4R's strategy, this variation is narrowing. Further, the

[18] Source: RBI

extent by which weaker PSBs lagged behind stronger PSBs in adopting better banking practices has begun narrowing under the PSB Reforms **EASE** Agenda, as reflected by the reducing gap in the average **EASE** Index score for PCA PSBs vis-à-vis non-PCA PSBs. This has improved the ability of PSBs to harness scale and synergy benefits through corporate action. The Government has enabled such action by establishing an approval framework for considering amalgamation proposals in respect of PSBs.

Taking advantage of the improved conditions for consolidation, a three-way amalgamation of Bank of Baroda, Vijaya Bank and Dena Bank has been notified, effective April 2019, which will create India's second largest PSB. Further, acquisition of majority stake in IDBI Bank Ltd. by LIC enabled harnessing of synergies between India's largest insurer and IDBI Bank Ltd.

These initiatives are expected to result in multiple synergy benefits for the concerned banks, including, increased customer reach, improved customer offering through wider bouquet of products and services, wider opportunity for employees and reduced cost of operations through improved efficiency.

Areas for further improvement emerging from EASE Reforms Index

EASE Reforms Index offers insights into areas where PSBs need to sustain momentum to realise further gains from these reforms. Many such areas involve strengthening IT systems, which require investments and time-bound implementation. Improvement areas also include reform initiatives where initial steps have been taken and adoption needs to be driven further. PSBs have committed to roadmaps for improvement across these initiatives and progress against the same is expected to be reviewed by their Boards' periodically. In the next 12 months, PSBs are expected to achieve significant progress in key areas. These areas have also been given relatively large weights in **EASE** Reforms Index.

In the theme of Customer Responsiveness, promoting 'Banking from the comfort of home and mobile' through mobile banking, call centre and Internet banking should be the key priority for PSBs. This would enable them to improve efficiency and reduce operating costs. While PSBs offer an average of 28[19] key banking services through Internet banking and 19[19] through mobile banking, they offer only 11[19] services through call centres against an identified list of 45 services. Increasing the number of services would entail investment in IT systems. PSBs have already undertaken steps to augment the number of services across platforms and are expected to achieve desired targets by FY20. Going forward, PSBs also need to improve quality and ease of use of these features, improve availability of regional language interfaces in every state where they have more than 100 branches and take proactive steps to drive adoption of these platforms.

Branches of PSBs will continue to be a dominant channel for customers. While a number of improvements are required in branch-based customer service, most critical will be ensuring availability of self-service machines such as ATMs, cash-deposit machines and pass-book printers. This will increase customer convenience and also reduce transaction intensity at counters enabling the bank staff to engage with customers to develop relationship and offer financial advice.

PSBs have rolled out reforms with regard to all the Action Points in the theme of Responsible Banking, which is a dominant theme in PSB Reforms **EASE** Agenda. They have made early-stage progress in a few Action Points such as adoption of enhanced policies and processes for credit appraisal and monitoring, consortium based lending and risk management. Through IBA, PSBs have created a common Standard Operating Procedure (SOP) to improve coordination in consortium loans and have identified common list of agencies for specialised monitoring to effectively monitor project loans above ₹250 crore. PSBs need to accelerate implementation of these reforms –viz., accelerate appointment of specialised monitoring agencies in all project loans above ₹250 crore exposure, operationalise SOP defined by IBA with respect to consortium loans, monetise non-core assets and implement system-driven tracking of one-time settlements (OTS).

Risk management needs to be improved in terms of reducing deviation from risk based pricing, timely completion of checking of NPA cases above ₹50 crore from the angle of wilful default and fraud. Cyber-security risk is a key emerging risk with increasing digitalisation. PSBs need to keep pace with

[19] Number of services offered is out of 45 services selected for **EASE** Reforms Index measurement

technological developments in this area and need to leverage advanced analytics for transaction monitoring and alerts.

Reforms in the themes of Credit off-take and UdyamiMitra for MSMEs are aimed at increasing efficiency and effectiveness in customer out-reach, loan proposal processing and digital lending. In these areas, PSBs need to substantially increase the number of employees dedicated for marketing and relationship management, improve IT systems for straight-through processing of loans, ensure implementation of key features of loan management systems such as integration with core banking system and ensure speedy decisions to reduce pendency of loan applications.

PSBs play a vital role in providing access to banking services at the last mile and driving financial inclusion. To enhance last-mile access to banking services (near-home banking), PSBs need to increase proportion of active Bank Mitras from the current 97 percent to nearly 100 percent, increase number of services offered through Bank Mitras to achieve branch equivalence and significantly drive digital payments through RuPay cards, POS and AePS.

With respect to HR management practices, **EASE** Reforms Index indicates that performance management systems need further automation, objectivity in evaluation and enhanced frameworks ensuring clear identification of top-performers. Many PSBs have recently adopted implementation of the job families system through a Board approved policy. They are also investing in implementing digital PMS to improve process efficiency and bring in greater objectivity. These initiatives are expected to show visible benefits in the next 12-24 months.

The number of initiatives under progress in each PSB concern different departments and are at different levels of progress. **EASE** Reforms Index provides a robust framework to track the progress of reforms not only across the PSBs but also within the PSBs. The methodology of **EASE** Reforms Index is shared transparently with PSBs. They can leverage the same and can create customised index for tracking reforms based on bank's priorities, set up centralised teams to comprehensively drive **EASE** Reforms Agenda and link performance metrics of concerned employees to achievement on metrics covered in **EASE** Reforms Index. With this, the **EASE** Reforms will get ingrained further and will catalyse PSB performance on multiple dimensions.

SUMMING UP

Build-up of stress from 2009 to 2015 had led to a deterioration in key performance parameters of PSBs. To address this issue, the Government, since 2015, rolled out the 4R's strategy of Recognition, Resolution and recovery, Recapitalisation and Reforms. Significant progress has been achieved in each of the four R's. Hidden stress recognition is nearly complete, IBC and other reform measures are accelerating recovery from NPAs. Recapitalisation announced by the Government is expected to be completed by the end of FY19. Recapitalisation, along with improved financial performance of PSBs is expected to increase investor confidence enabling PSBs to raise capital from the markets. PSBs and the Government have initiated reforms in banking operations in the areas of prudential lending, risk management, technology driven checks and controls and **SMART** banking. Multiple reforms have been initiated with respect to PSB governance and to bring transparency and accountability in the financial ecosystem. These reforms are showing progress and are enabling **CLEAN & SMART** banking.

PSB Reforms **EASE** Agenda was launched as a common reforms agenda for all PSBs with joint commitment by PSBs and the Government. With the launch of the first of its kind **EASE** Reforms Index based on transparent methodology, a robust mechanism has been created for tracking of continuous improvement of PSB's performance along with in-depth insights, benchmarks and inter-bank comparison. The first **EASE** Reforms Index shows that the PSBs are making progress across different Action Points and also highlights areas where PSBs can improve further by consolidating the actions underway to show visible impact by FY20.

Reforms is a continuous journey and sustaining the momentum of reforms will help PSBs to further improve performance by FY20 and build platform capabilities for the future.

EXHIBIT 13 | Reforms Journey

	FY15	FY16	FY17	FY18	FY19 (YTD)	Impact
PCA Banks' performance						3 Banks out of PCA restrictions
NPA Recovery in PSBs						₹2.87 lakh crore recovered[1]
Merger of PSBs					Merger of 3 PSBs announced	
Stake dilution in IDBI Bank					Mgt. control ceded to LIC	
psbloansin59mins.com					Portal launched	1+ lakh in-principle sanctions[2]
Fugitive Economic Offenders Act, 2018					Law enacted	
NFRA					NFRA operationalised	
EASE Reforms Index					**EASE** Reforms Index launched	15% improvement in 9 months
PSB Reforms **EASE** Agenda				PSB Reforms Agenda launched		
PSB Recapitalisation				₹2.11 Lakh Cr. announced		₹2.5 lakh crore infused already/raised
Additional Tier 1 bonds				Expensive Tier-1 bonds recalled		
Inoperative (Shell) companies				Bank accounts de-registered		Accounts of 3.38 lakh companies deregistered
TReDS				TReDS launched		
UdyamiMitra				Portal launched		
Amendment to IBC				Connected parties debarred		Recovery of ₹98,493 crore[3] by PSBs
Enactment of IBC			IBC enacted			
UPI			UPI, BHIM launched			62 Cr.+ monthly transactions[4]
Bank Bureau Board			Board operationalised			
Indradhanush recapitalisation plan		₹70,000 Cr. announced				₹59,435 Cr. infused
AQR		AQR launched				SRA reduced to 0.5% of gross advances
PMMY		PMMY launched				15+ Cr. loans sanctioned
Social security schemes		PMSBY, PMJJBY launched				14+ Cr. PMSBY, 5+ Cr. PMJJBY enrolments
PMJDY	PMJDY launched					34+ Cr. PMJDY accounts[5]
eKYC	Aadhaar based eKYC launched					33+ Cr. e-KYC done for financial services

Note: Data as of December 2018, unless specified 1. Since FY15, until December 2018 2. Till 25 December 2018 3. Till December 2018 4. In December 2018 5. Till February 2019
Source: RBI, Ministry of Finance, NPCI, **EASE** Reforms Index

INTRODUCTION

PSBs: BACKBONE OF THE INDIAN ECONOMY

Public Sector Banks (PSBs) are the mainstay of the Indian banking industry. PSBs and PSB-sponsored Regional Rural Banks (RRBs) have dominant market presence and constitute 78 percent of the bank network of Scheduled Commercial Banks (SCBs). In rural locations, this share is higher at 87 percent. They also play an important role in fuelling investment needed for the country's economic development, with a share of over 70 percent of SCBs' deposits and 66 percent of outstanding credit[20]. In rural and semi-urban (RUSU) locations, their share is even higher at 88 percent of saving account deposits and 81 percent of outstanding credit. PSBs and RRBs play a critical role in priority sector lending and account for 74 percent of outstanding credit to Small and Marginal Farmers, 65 percent of outstanding credit to Micro and Small Enterprises and 95 percent of education loans[21]. PSBs are also key providers of long-term credit (more than 5-year term) with a share of 73 percent of outstanding credit[20]. Given these linkages, PSBs are critical in unlocking investment needed for development of the Indian economy.

DEVELOPMENT AND ROLL-OUT OF PSB REFORMS EASE AGENDA

While PSBs have continued to pursue reforms over the years, a greater thrust was required to address the challenges emanating from excessive stress in advances in the last few years and to make PSBs more responsive to evolving customer needs. A holistic PSB Reforms **EASE** Agenda, which is common across 21 PSBs, is being implemented as a part of the 4R's strategy (Recognition, Resolution and recovery, Recapitalisation and Reforms) to drive towards **CLEAN & SMART** banking.

'PSB Manthan'- An action path for PSBs

In order to define the objectives and clear action points for the PSB reforms, more than 250 officials, including PSB Whole Time Directors (WTDs), senior management and government representatives came together at the 'PSB Manthan' programme in November 2017. The focus of the programme was to elicit recommendations from the PSBs themselves and to establish joint commitment towards the same.

The recommendations present an action plan for PSB reforms on multiple fronts: prudential lending, banking from the comfort of home and mobile, digitalisation, enhanced credit access, greater MSME focus, deeper financial inclusion and improved HR practices. The recommendations led to the creation of PSB Reforms - Enhanced Access & Service Excellence (**EASE**) - Agenda that was released on 24 January 2018. It comprises 30 Action Points across six specified themes.

Implementation of PSB Reforms EASE Agenda

There is a shared commitment to carry out the time-bound implementation of the PSB Reforms **EASE** Agenda. Rigorous implementation of reforms is emphasised in multiple ways:

- The Boards of Directors of PSBs have approved banks' plans to implement PSB Reforms **EASE** Agenda and monitors the progress in board meetings every quarter.
- Bank Boards will also evaluate WTDs on their performance in implementing the Reforms Agenda. This evaluation will account for 20 percent weightage in the APAR of WTDs.
- IBA is facilitating the comprehensive tracking of progress of banks through a steering committee comprising select WTDs of PSBs.
- A first-of-its-kind '**EASE** Reforms Index' has been developed independently track and report the progress made by each bank. This will also ensure competitive spirit among PSBs. This Index will be reported quarterly, leading up to a comprehensive annual review.

[20] As on 31 March 2018; Source: RBI
[21] As on 31 March 2018, Data of loans qualified under priority sector lending norms; Source: RBI

The first edition of the **EASE** Reforms Index has been completed, based on improvement of PSB performance since the release of PSB Reforms **EASE** Agenda, till December 2018. The Index uses bank performance at the end of FY18 as the baseline and is based on 140 metrics across the 30 Action Points. It uses varied data sources, including data from PSBs, external sources and customer research to provide insights into the progress. Detailed insights from the metrics and benchmarks are shared with individual PSBs as feedback for further action.

ABOUT THE REPORT

This report presents the theme of **CLEAN & SMART** banking for Aspiring India with context, initiatives and achievements of various reforms undertaken by the Government and PSBs. It emphasises on PSB Reforms **EASE** Agenda and outlines summary outcomes of **EASE** Reforms Index including areas of strong performance and areas for further improvement for PSBs. The report is organised in different chapters, as outlined below:

Banking for All: PSBs have created significant impact at the grassroots level. They have played a vital role in the rollout of Pradhan Mantri Jan-Dhan Yojana, which has been transformational in promoting financial inclusion in the country. PSBs are bankers to millions of micro-enterprises, farmers and senior citizens. This chapter describes the role that PSBs have played in serving these segments and the impact they have created.

Clean Credit Culture: Historical build-up of stress in the banking system adversely impacted PSBs, impacting their growth, profitability and ability to drive further growth. Pursuant to the 4R's strategy, large systemic initiatives have been taken leading to visible impact. This chapter describes the different aspects of these initiatives, reforms in PSBs to strengthen responsible banking and the significant results achieved.

Ushering Smart Banking: Trends in digital technology, big data & analytics are bringing disruptive changes in the banking industry. Government initiatives to promote formalisation through the Goods and Services Tax and to create digital banking infrastructure, have helped accelerate digital banking. This chapter describes reform initiatives that PSBs have taken by leveraging these developments and the improvement trends.

EASE Reforms Index: The first ever **EASE** Reforms Index has been developed based on a robust methodology. This chapter describes the methodology, outcomes and insights into the progress made by PSBs vis-à-vis PSB Reforms **EASE** Agenda.

Way Forward: Insights into the journey of PSBs vis-à-vis PSB reforms **EASE** Agenda and the achievements so far help in articulation of the way forward for PSBs. This chapter describes how the banks are expected to drive **CLEAN & SMART** banking further.

BANKING FOR ALL

BACKGROUND

Financial inclusion is becoming a reality of the Indian banking system. Providing access to basic financial services to unbanked households and formal credit to the agriculture sector and micro-enterprises have been important focus areas for PSBs over the past few years.

Around 68 percent of India's households reside in rural locations[22]. For sustainable economic growth of the country, it is critical that these households and other households excluded from the formal banking system are financially included. For this, they need access to affordable financial products suited to their needs.

In recent years, penetration of formal financial services in these households has increased significantly due to multiple financial inclusion initiatives. Today, most Indian households have at least one bank account[23]. PSBs, along with RRBs, play a vital role in providing banking services to these households. They account for 93.6 percent of 107 crore savings accounts in rural and semi-urban locations (RUSU)[24]. They have a dominant market share in the RUSU market, with 88 percent of saving account deposits and 81 percent of outstanding credit[25].

India is the second largest producer of agricultural products[26] and the fifth largest manufacturer in the world[27]. Agriculture and Micro-enterprises[28] are the mainstay of the working population of the country, employing about 25 crore and 10.7 crore individuals respectively[29]. Both agriculture and micro-enterprises are important drivers of India's economic growth and credit access to these segments is therefore crucial.

Focused measures to drive formalisation and directed lending to these segments have led to an increase in formal credit to these segments in the past few years. The total outstanding credit that the banking industry has provided to Small and Marginal Farmers[30] has increased from ₹3.71 lakh crore by the end of FY15 to ₹6.40 lakh crore by the end of FY18. This means a growth of 20 percent compounded annually. The total outstanding credit of all SCBs to Micro and Small Enterprises[31] has increased from ₹9.8 lakh crore by the end of FY15 to ₹10.5 lakh crore by the end of FY18. PSBs are the dominant source of credit to these segments. PSBs account for 74 percent of outstanding credit to Small and Marginal Farmers and 65 percent of outstanding credit to Micro and Small Enterprises[32].

Given the importance of providing banking services to these segments, one of the important objectives of PSB reforms is to foster ease for serving these customers at the grassroots level.

FINANCIAL INCLUSION AND THE ROLE OF PSBs

Financial inclusion through differentiated banking products helps to boost consumption, savings and investment among poor households, contributing to their economic growth and reducing income inequality. More importantly, inclusion in the formal financial system protects customers from the drawbacks of the informal financial system, such as high interest rates or the risk of losing collateral assets. It also helps households to absorb shocks like unexpected health expenses or irregular income flows[33].

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[22] Source: Census of India 2011
[23] Source: Government of India – mygov.in
[24] Note: Includes Regional Rural Banks (RRBs) accounts, As on 31 March 2018; Source: RBI
[25] Note: Includes the share of RRBs; As on 31 March 2018; Source: RBI
[26] Source: Ministry of Agriculture and Farmers Welfare, Government of India
[27] Source: World Economic Forum – Global Manufacturing Index Report
[28] Micro-enterprises are enterprises with up to ₹25 lakh investment in plant and machinery in manufacturing sector and up to ₹10 lakh investment in equipment in service sector
[29] Source: Economic Survey 2017-2018 Volume I; World Bank; MSME Annual Report 2017-2018 by Ministry of Micro, Small and Medium Enterprises
[30] Small and Marginal Farmers are farmers cultivating agricultural land up to 2 hectares
[31] Small-enterprises are enterprises with ₹25 lakh to ₹5 crore investment in plant and machinery in manufacturing sector and ₹10 lakh to ₹2 crore investment in equipment in service sector
[32] Source: RBI
[33] Adapted from Global Partnership for Financial Inclusion

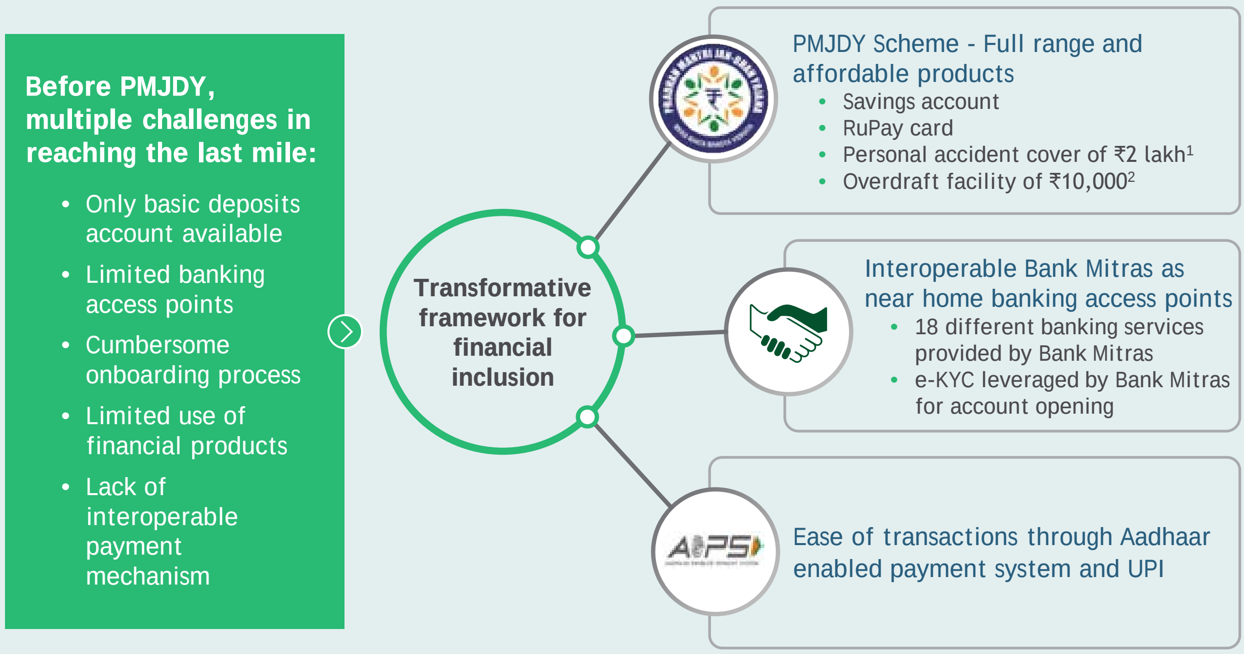
Financial inclusion has been a key policy focus for many years. But the biggest thrust came about in 2005, when the RBI introduced basic banking 'no frills' or Basic Savings Bank Deposit (BSBD) accounts and institutionalised the business correspondent (BC) framework.

In spite of this, about 6 crore rural households, comprising 36 percent of rural households, remained unbanked as of July 2014[34]. Access and delivery of banking services at the last mile remained a key hindrance. Lack of interoperability in the BC network limited access, both across banks and across service points of the same bank. Additionally, BSBD accounts did not provide access to other products such as account-linked overdraft credit and insurance cover.

Transformative framework for financial inclusion enabled by PMJDY

The Pradhan Mantri Jan-Dhan Yojna (PMJDY), launched in August 2014, significantly addressed the gaps and challenges in providing financial services to those left out of the formal financial system. The scheme linked different financial products to savings accounts, created infrastructure to enable interoperability across BCs and leveraged technology to ease the processes of account opening and transacting.

EXHIBIT 14 | PMJDY and its implementation strategy advanced financial inclusion efforts



1. Revised from ₹1 lakh to ₹2 lakh in September 2018 2. Revised from ₹5,000 to ₹10,000 in September 2018
Source: pmjdy.gov.in, NPCI, **EASE** Reforms Index

Improvement in last mile access to banking services

The reach of formal banking system remained inadequate until 2014 despite the presence of a network of over 74,500 SCB branches, 66,700 ATMs and 3.3 lakh BCs in RUSU[35]. Under PMJDY, over 6 lakh villages were mapped to 1.59 lakh Sub Service Areas (SSAs) with each SSA typically comprising 1,000 to 1,500 households. Of the 1.59 lakh SSAs, 1.26 lakh SSAs did not have a banking outlet[36]. To address this challenge, interoperable and online BC agents (called Bank Mitras) were deployed in these 1.26 lakh SSAs to facilitate banking services. Fixed-point service delivery units operated by Bank Mitras were recognised

[34] Source: RBI, Ministry of Finance; Data estimated as per 2011 census
[35] Source: RBI
[36] Source: Ministry of Finance

as banking outlets at par with bank branches[37]. Bank Mitras were also equipped with biometric enabled Micro-ATMs, which aided in providing door-step banking transactions such as cash deposits, withdrawals and fund transfers.

PSBs made a significant contribution in the mapping of all SSAs. They conducted surveys to identify the unbanked households across the country and along with RRBs, deployed Bank Mitras in 1.23 lakh SSAs (97 percent of SSAs without a bank branch).

To further the access, PSBs are working towards providing banking outlets within a radius of 5 Km. of every village. In December 2017, DFS, along with National Informatics Centre (NIC) identified 40,036 villages which did not have any banking outlet within 5 Km. radius. Subsequently, State Level Bankers' Committees (SLBCs) allotted these villages to banks for opening banking outlets. Banking outlets have been opened in 96% of these villages as on February 2019, with PSBs being the major contributors.

There has been a significant improvement in banking coverage since FY14 and PSBs have played a major role in this development.

EXHIBIT 15 | Significant improvement in banking coverage

	From	To	PSB Contribution[1]
Number of bank branches in RUSU	**74,500** (As on Mar-14)	**91,800** (As on Dec-18)	81% (As on Dec-18)
Number of ATMs in RUSU	**66,700** (As on Mar-14)	**102,700** (As on Sep-18)	79% (As on Sep-18)
Districts with at least one banking outlet per 1,500 households	**151/640** (As on Jan-15)	**634/640** (As on Dec-18)	~100% (As on Dec-18)
Percentage of SSAs covered with banking outlets	**21%** (As on Aug-14)	**99.84%** (As on Dec-18)	97% (As on Dec-18)
Number of active Micro-ATMs	**83,000** (As on Jan-16)	**6,01,000** (As on Dec-18)	40% (As on Dec-18)

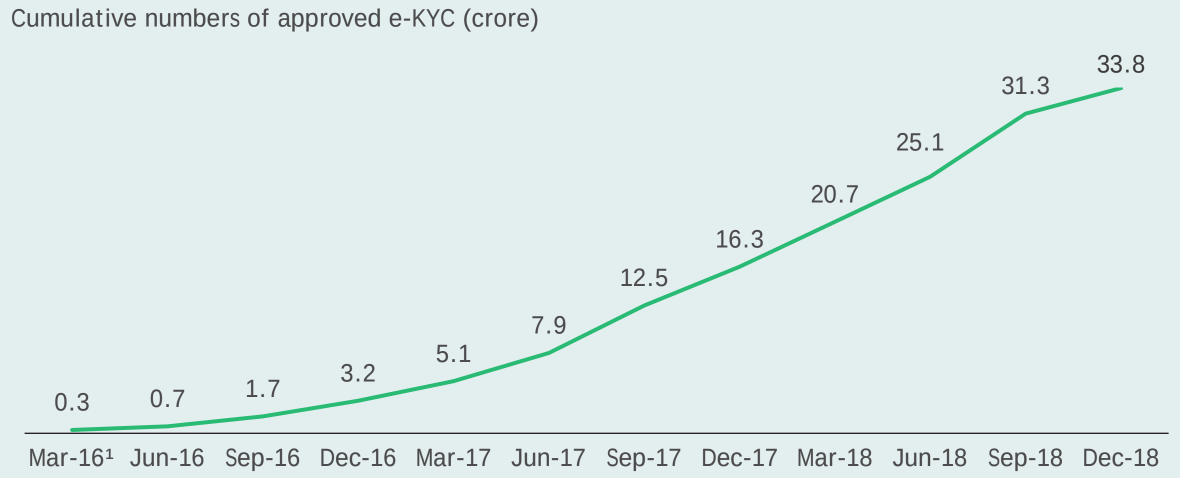
1. Includes RRBs; PSB contribution in case of branches, ATMS and Micro-ATMs means number of PSB access points out of total access points; in case of districts, it means % district with PSB banking outlet presence; in case of SSAs, it means % SSAs covered through PSBs
Source: RBI, Economic Survey 2016-2017, NPCI, NIC, BCG analysis

[37] Source: RBI Circular: RBI/2016-17/306 DBR.No.BAPD.BC.69/22.01.001/2016-17

e-KYC eased authentication for account opening

Before 2014, lack of physical documents of identity and proof of address often posed significant challenges while opening a bank account. The challenge was more acute among women. Introduction of Aadhaar based e-KYC and biometric authentication significantly simplified the account opening process. e-KYC also led to Aadhaar seeding of all new bank accounts opened using e-KYC. Banks can now use e-KYC to authenticate and open account of beneficiaries who wish to avail government subsidies[38].

EXHIBIT 16 | Significant number of e-KYC approved since March 2016



Note: e-KYC for all financial services; For e.g., any financial instrument account opening, address and phone number update with banks, etc.; data prior to March 2016 is not available
Source: NPCI

Large number of PMJDY accounts opened

PMJDY has resulted in a significant increase in opening of new bank accounts as well as deposit mobilisation. Since its launch, banks have opened 34.43 crore PMJDY savings accounts and mobilised ₹91,142 crore deposits in those accounts until 13 February 2019[39]. PSBs account for 97 percent of accounts as well as the value of deposits[40]. The average balance in the PMJDY accounts has increased from ₹286 in September 2014 to ₹2,647 in February 2019.

PMJDY account holders have also begun availing the overdraft (OD) facility linked to their accounts. Since its launch, around 30 lakh PMJDY accounts have availed the OD facility from PSBs until December 2018[41]. Overdraft amount of ₹417 crore was disbursed to these accounts until December 2018.

Significant expansion of formal banking services

The country has seen significant progress in financial inclusion over the past 4 years. Nearly all households in the country are 'banked'. The number of BSBD accounts, including PMJDY accounts, increased by 120 percent from 24.3 crore in March 2014 to 53.6 crore in March 2018. Average balance per BSBD account has increased by 63 percent over the same period.

[38] Note: Aadhaar is optional for KYC; Source: Supreme Court Judgement: 35071 2012 Judgement 26 Sep 2018
[39] Source: pmjdy.gov.in
[40] Includes RRBs
[41] Data is of PMJDY accounts who are eligible for PMJDY Overdraft as on 31 December 2018. Source: **EASE** Reforms Index

EXHIBIT 17 | Banking services penetration has improved significantly

	Mar-11	Mar-14	Mar-18
		Significant progress in 4 years	
Percentage of unbanked rural households	46%	36%[1]	Nearly 0%
No. of BSBD accounts	7.5 crore	24.3 crore	53.6 crore
Average balance per BSBD account	₹756	₹1,285	₹2,091

1. "Mar-14" numbers based on 2011 Census data
Source: Ministry of Finance, 2011 Census, RBI, mygov.in

Growth in AePS transactions

To take banking to the remotest corners of the country so that people can send or receive money and avail other banking services, the Government launched the Aadhaar enabled Payment System (AePS)[42]. This allowed people to carry out transactions on a Micro-ATM by simply providing their Aadhaar number and verifying it with biometrics. As pointed out earlier, one of the major challenges before the launch of PMJDY was interoperability across BCs. Customer of one bank could not use the facilities of another bank's BC. But AePS service is interoperable, which means customers can go to any Bank Mitra and use the facility for a transaction.

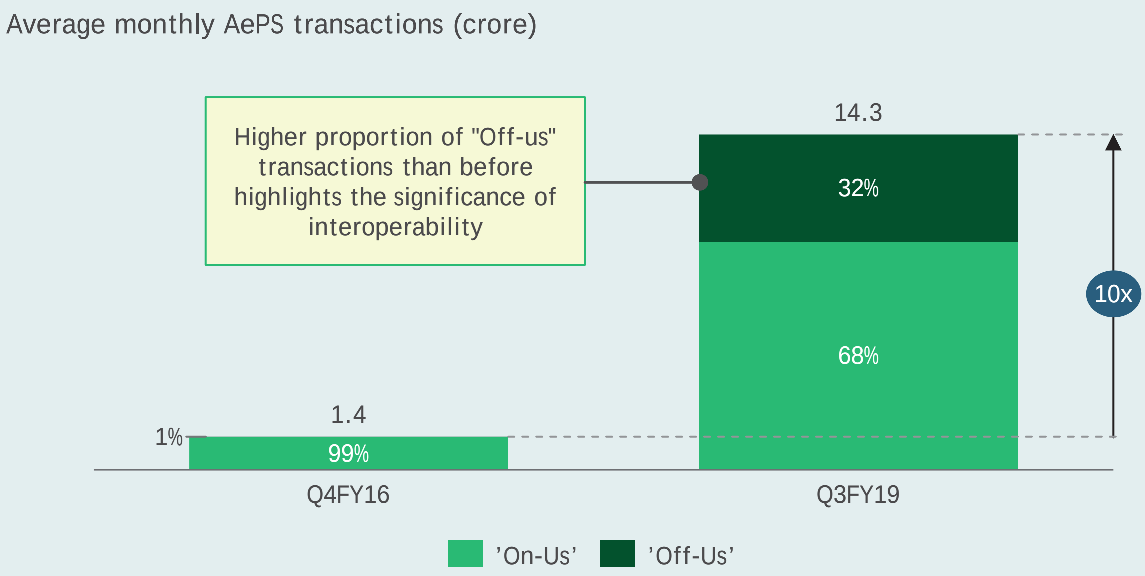
Aadhaar numbers were seeded with bank accounts in large numbers. About 117 crore operative current and saving accounts are Aadhaar seeded across all SCBs as on 31 December 2018, creating a large user base for AePS transactions[43]. The monthly AePS transactions grew tenfold from 1.4 crore in Q4FY16 to 14.3 crore in Q3FY19, suggesting significant increase in account activity.

AePS has significantly increased the ease of transactions in Aadhaar seeded accounts. Through AePS based Micro-ATMs, Bank Mitras can provide 18 different banking services including cash withdrawal, cash deposit, fund transfer, balance enquiry, TD/RD account opening and enrolment in social security schemes, among others. By making transactions across banks easy, AePS has emerged as a key platform for boosting the use of bank accounts.

As a result of strengthening of interoperability through AePS, the share of 'Off-Us' transactions[44] increased to 32 percent in Q3FY19 from just 1 percent in Q4FY16. The high share of 'Off-Us' transactions reflects the convenience AePS offered to customers for transactions.

[42] AePS is a bank led model which allows online interoperable and speedy financial transaction at Micro ATMs using the Aadhaar authentication
[43] Source: NPCI
[44] 'Off-Us' transactions are those where one bank's transaction infrastructure is used for carrying out transactions for other bank accounts

EXHIBIT 18 | Significant growth in AePS transactions



Source: NPCI

DBT driving game changing reform enabled by PMJDY

Direct Benefit Transfer (DBT) has transformed the government-to-citizen benefit transfers. It enabled speedy, targeted payments and, most importantly, reduced leakage in the transfers of government-to-citizen benefits. The Government has saved about ₹1.09 lakh crore in the past 4 years by plugging leakages and removing duplicate accounts[45]. In addition, DBT benefited individuals by creating income trails, thereby increasing creditworthiness and also led to additional income through interest earned on balances.

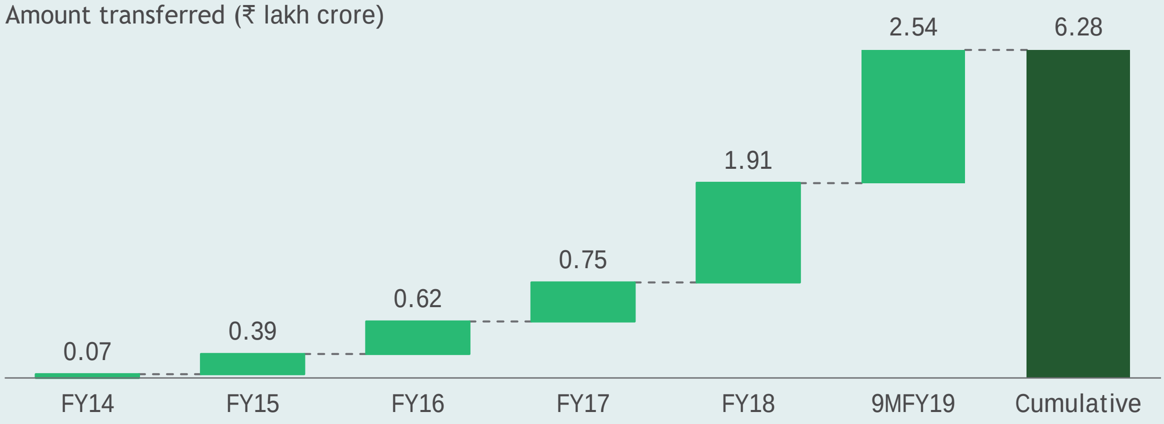
PMJDY accounts, along with Aadhaar seeding and mobile seeding, provided a platform to implement the DBT scheme efficiently. After the launch of PMJDY, the Government encouraged the linking of JAM numbers (Jan-Dhan bank account number, Aadhaar number and mobile number) to eliminate leakages in Government benefit transfers. The seeding of Aadhaar to Jan-Dhan bank account number helped the Government transfer money directly to the right beneficiaries' accounts. The seeding of mobile number to the Jan-Dhan account helped the beneficiaries to access their accounts conveniently through their mobile phones. PSBs have made significant efforts in ensuring Aadhaar and mobile seeding in all current and savings accounts (CASA) - 83 crore operative CASA are Aadhaar seeded and 74 crore are mobile seeded across all PSBs[46], as on 31 December 2018.

The adoption of DBT has significantly increased over time[47]:

- 55 central ministries use DBT across 439 schemes
- 26 state governments and 3 union territories are using DBT
- 46.3 crore beneficiaries received DBT by the end of FY18 vs. 10 crore by the end of FY14; in FY18, 87 percent of DBT transfers were to beneficiaries having PSB accounts
- DBT of ₹6.28 lakh crore received by beneficiaries from April 2013 to December 2018

[45] As on 31 December 2018; Source: dbtbharat.gov.in
[46] Source: **EASE** Reforms Index
[47] Source: dbtbharat.gov.in, retrieved on 15 February 2019

EXHIBIT 19 | Direct Benefit Transfer increasing every year



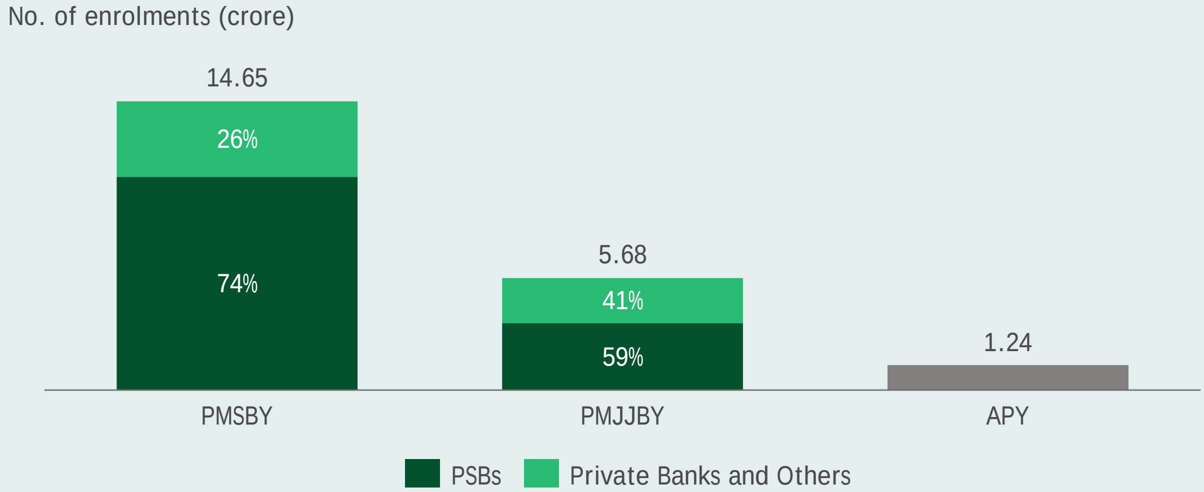
Source: dbtbharat.gov.in, data retrieved on 15 February 2019

Banking as entry point to drive social security schemes

The Government has used banking to drive the adoption of social security schemes. To do this, bank accounts have been used as an entry point for three major social security schemes introduced by the Government in May 2015 – Pradhan Mantri Suraksha Bima Yojana (PMSBY), Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and Atal Pension Yojana (APY).

The schemes are administered by insurance companies but the banks act as intermediaries to source the policies. Auto-debit facility from bank accounts enhance the ease of renewal of policies under these schemes. With low premium rates[48], these policies are affordable even to most poor households. PSBs have contributed to enrolments in these security schemes significantly.

EXHIBIT 20 | Large scale enrolment in social security schemes



Note: As of 31 December 2018
Source: Ministry of Finance

[48] Personal accident insurance under PMSBY with cover of ₹2 lakh at premium of ₹12 per annum, Life Insurance under PMJJBY for cover of ₹2 lakh for premium of ₹330 per annum, Minimum pension entitlement under APY for ₹1,000 – 5,000

PMMY FOR CREDIT TO MICRO-ENTERPRISES AND ROLE OF PSBs

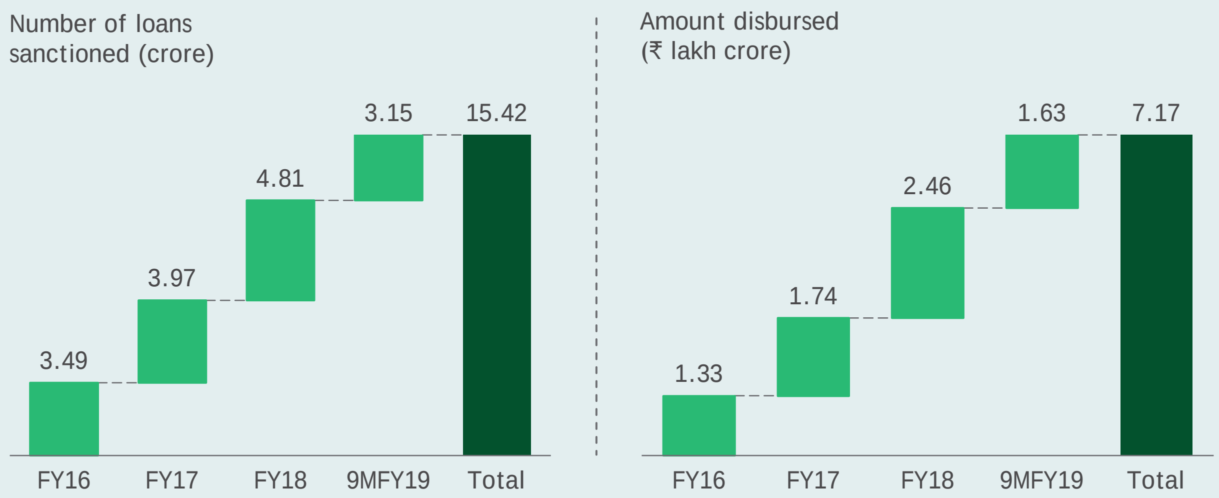
Micro-enterprises play an important role in driving India's economic growth as they employ nearly 10.7 crore individuals in the country[49]. Obtaining credit from formal financial system was often a challenge for the micro-enterprises due to lack of sufficient credit history and collaterals.

Pradhan Mantri Mudra Yojna (PMMY) was launched in April 2015 to address these challenges and to increase the flow of credit to micro-enterprises. Three categories of MUDRA loans – Shishu (loans up to ₹50,000), Kishore (loans from ₹50,000 to ₹5 lakh) and Tarun (loans from ₹5 lakh to ₹10 lakh) were introduced. The focus of the scheme is on the Shishu category, to be upgraded to the next category of MUDRA loans in later stages. PMMY also enabled borrowers to take credit without any collateral.

The scheme also supports the lending institutions by providing portfolio level guarantee for credit and refinancing. All types of lending institutions including SCBs, micro finance institutions and NBFCs are eligible to evaluate PMMY loan applications and lend under the provisions of PMMY.

By December 2018, 15.42 crore loans have been sanctioned and a sum of ₹7.17 lakh crore has been disbursed under the MUDRA Yojana. From FY16 to FY18, MUDRA loans to women accounted for 73 percent of total loans and 43 percent of the disbursed amount. Over the same period, loans to SC/ST and OBC accounted for 55 percent of total loans and 36 percent of disbursed amount[50]. By the end of FY18, PSBs accounted for 45 percent of the total amount disbursed, the highest among all the lending institution categories[51].

EXHIBIT 21 | PMMY loans sanctioned and amount disbursed



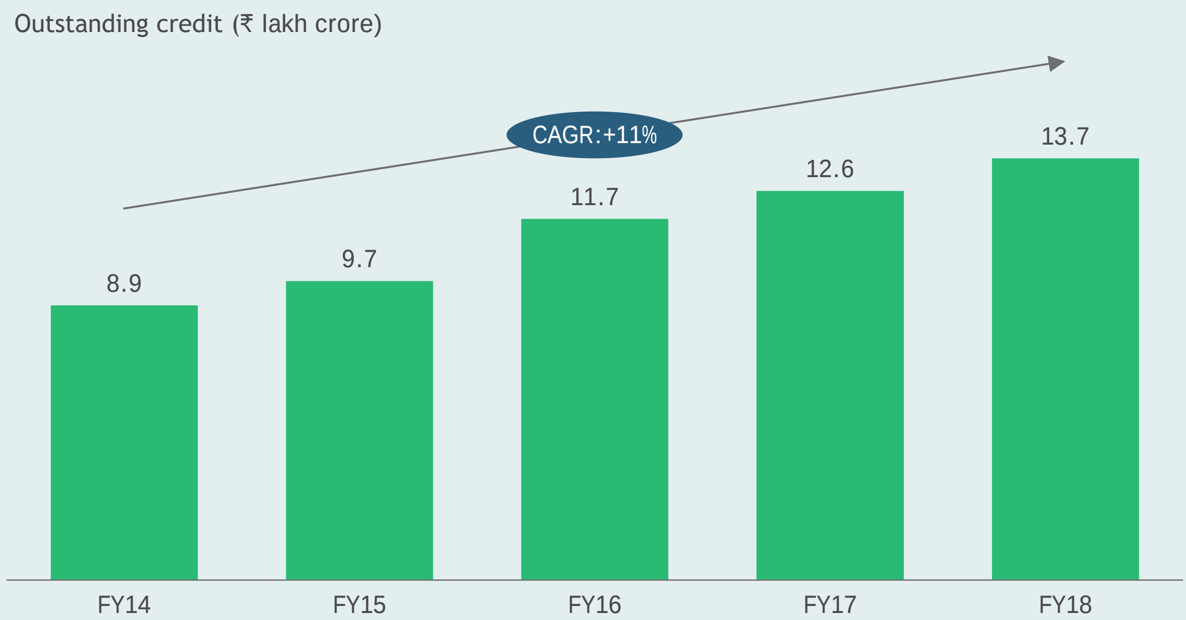
Source: mudra.org.in, data retrieved on 11 January 2019

[49] Source: MSME Annual Report 2017-2018 by Ministry of Micro, Small and Medium enterprise
[50] Source: Annual Report of MUDRA 2017-2018
[51] Note: Includes RRBs; Source: Annual Report of MUDRA 2017-2018

PSBs ARE DOMINANT SOURCE OF CREDIT FOR AGRICULTURE AND ALLIED ACTIVITIES

The outstanding credit in agriculture and allied activities across all SCBs has grown at a CAGR of 11 percent from FY14 to FY18. PSBs are the dominant source of credit for farmers. By the end of FY18, PSBs accounted for 70 percent of outstanding credit to agriculture and allied activities.

EXHIBIT 22 | Credit to agriculture & allied activities has grown at a CAGR of 11% since FY14



Source: RBI

Increased focus on Small and Marginal Farmers

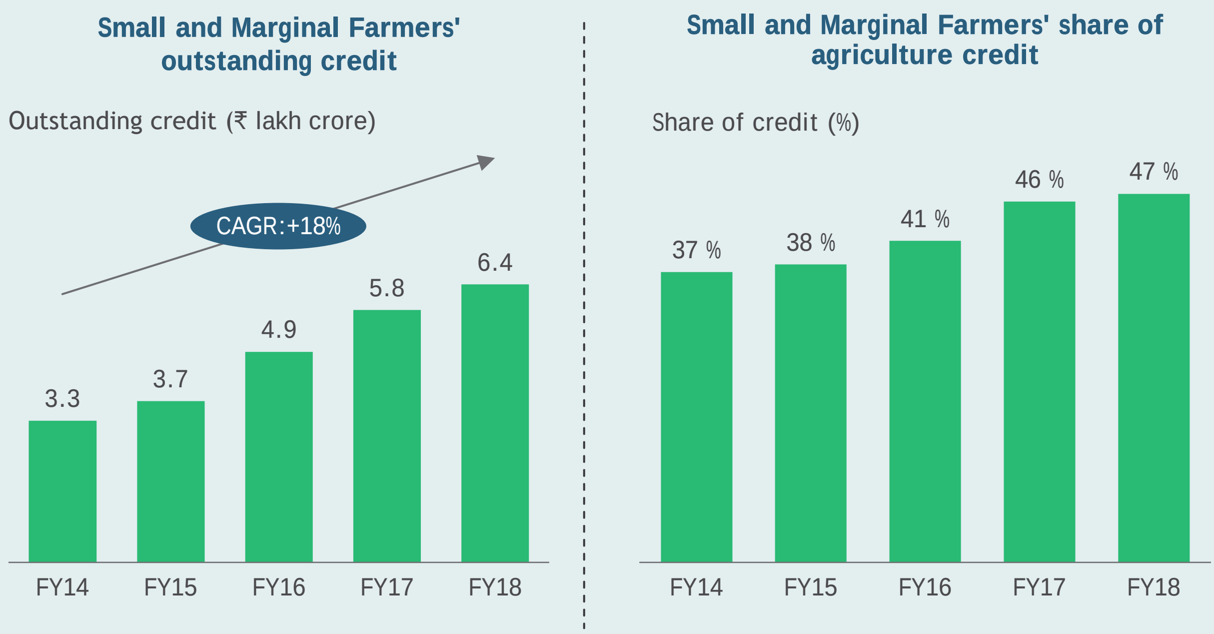
Over the past four years, multiple initiatives have been taken to increase directed lending to Small and Marginal Farmers.

- In 2015, a sub-target of 8 percent of ANBC[52] was set for all SCBs[53] for lending to Small and Marginal Farmers within the overall priority sector lending target
- In 2017, an interest rate subvention of 2 percent was approved for short-term crop loans up to ₹3 lakh borrowed during for FY17-18
- In February 2019, Pradhan Mantri Kisan Samman Nidhi Yojana was launched to provide direct income support of ₹6,000 per annum to Small and Marginal Farmers through DBT

Increased focus on Small and Marginal Farmers in the past four years led them to avail higher share of agriculture credit. These farmers accounted for 66 percent of the incremental outstanding credit in agriculture from FY14 to FY18. This increased their share in agriculture credit from 37 percent by the end of FY14 to 47 percent by the end of FY18. By the end of FY18, the total outstanding credit to these farmers was ₹6.4 lakh crore and PSBs accounted for 74 percent of this outstanding credit.

[52] Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance sheet exposure whichever is higher
[53] Note: Excluding foreign banks

EXHIBIT 23 | More credit reaching to Small and Marginal Farmers



Source: RBI

Since the setting up of sub-targets for lending to Small and Marginal Farmers, PSBs have been successful in achieving their targets. PSBs achieved 108 percent of the target by the end of FY17 and 111 percent of the target by the end of FY18. Shortfall in target achievement by other banks led to PSBs becoming net sellers of the Priority Sector Lending Certificates (PSLCs)[54] traded in Small and Marginal Farmers' category[55].

Crop protection to farmers through PMFBY

Pradhan Mantri Fasal Bima Yojna (PMFBY) was launched in 2016 with an aim to provide income protection to farmers against crop failure. Farmers pay less than 5 percent of the applicable premium and Central and State governments cover the balance. Under PMFBY, 4.9 crore policies were issued with an insured sum of ₹2.06 lakh crore by the end of FY18[56]. PSBs accounted for 25 percent of total policies issued[57] by the end of FY18[58].

PSBs PROVIDING SUPPORT TO SENIOR CITIZENS

PSBs have about 5.6 crore operative senior citizen accounts[59]. PSBs provide wide range of benefits and specially designed products for senior citizens, which includes:

- Up to 0.7 percent more interest on deposits
- Lower interest rate on loan against deposits
- Automatic conversion to senior citizen account based on age

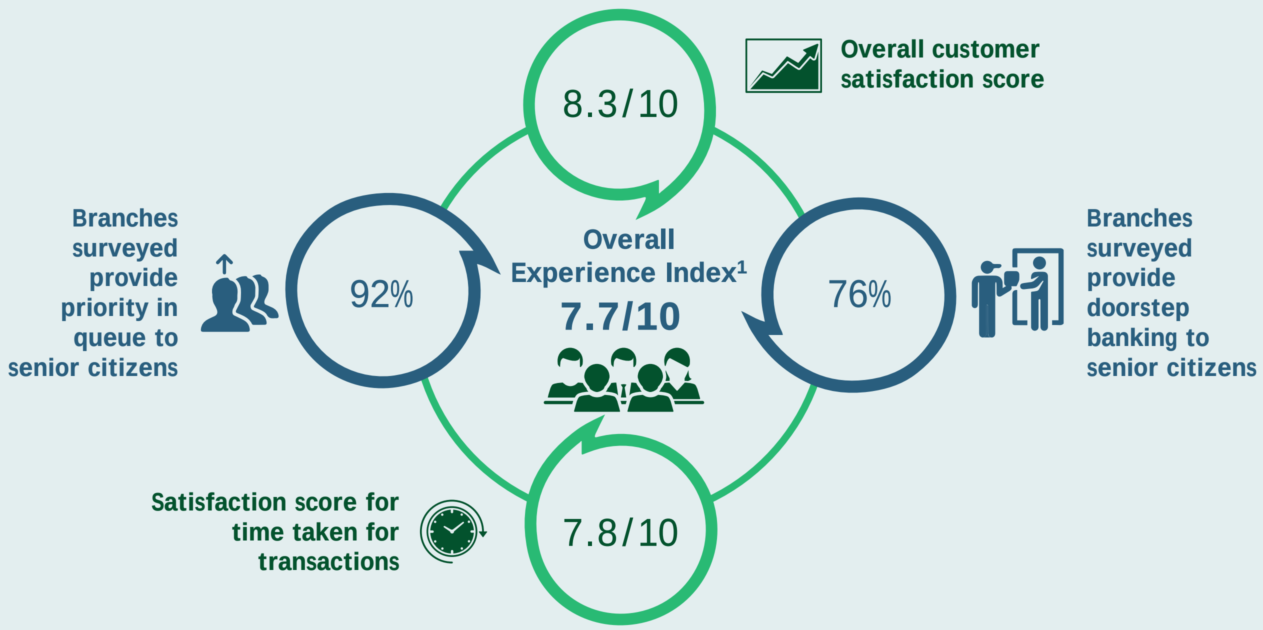
[54] The PSLCs scheme introduced in April 2016 allows banks to sell lending portfolio to other banks if they over-achieves the target
[55] Source: Trends and Progress of Banking in India 2016-2017, 2017-2018
[56] Includes both Rabi and Kharif crop; Source: Ministry of finance
[57] Source: **EASE** Reforms Index
[58] Source: PSBs
[59] As on 31 December 2018; Source: **EASE** Reforms Index

Senior citizens sometimes faced delays in credit of pension to their accounts due to inconvenience in the submission of their life certificate. The life certificate can now be submitted at any branch or online under the 'Jeevan Pramaan' initiative. Under this initiative, 11.6 lakh pensioners across all PSBs have submitted their life certificates online from 1 November 2018 to 31 December 2019[60].

In order to enhance the ease of banking transactions for senior citizens, all PSBs offer door-step banking to senior citizens above 70 years of age. Senior citizens are also given priority in servicing at bank branches through measures like dedicated counters, or priority in queues, or separate opening hours[60].

As part of the **EASE** Reforms Index, customer experience survey[61] and branch experience survey[62] were carried out with respect to the services mentioned above to gauge the satisfaction level of senior citizens. According to the customer experience survey, senior citizens expressed high satisfaction with respect to the services of PSBs.

EXHIBIT 24 | Senior citizen and branch surveys show high satisfaction among senior citizens



1. 50% weight given to senior citizen overall satisfaction score and 50% to branch infrastructure for senior citizen
Source: **EASE** Reforms Index

WAY FORWARD

A large section of farmers and micro-enterprises still avail credit from informal channels. A large untapped opportunity for profitable growth exists in both RUSU deposits and credit in agriculture and micro-enterprise segments.

PSBs have an opportunity to tap into greater demand while increasing customer convenience through continued reforms. Continued efforts to increase financial literacy will play an important role in increasing awareness about products, benefits and how to avail them. PSBs, along with a few private sector banks,

[60] Source: **EASE** Reforms Index
[61] BCG, in association with IMRB, conducted a survey of senior citizens with a sample size of 2,200 covering different geographic regions as well as city tiers
[62] BCG, in association with IMRB, conducted a survey of 2,200 PSB branches across different geographic regions as well as city tiers

operate more than 1,395 Financial Literacy Centres[63]. The initiative could be expanded to boost financial literacy as well as banking business from these segments.

Providing physical banking outlets often involves relatively higher cost for the banks as compared to the income generated from loans and other services. Promoting banking services through call centre, mobile apps and Bank Mitras not only increases customer convenience but also reduces the cost of transactions for banks. PSBs could improve the penetration of such services by increasing the number of services available through these channels, providing regional language interface and increasing the ease of use of such channels.

Lending without collateral and limited credit history often entails higher credit risk. Micro-enterprises and farmers often suffer on both counts- insufficient collateral and their limited credit history due to reliance on informal channels. Therefore, PSBs need to adapt and improve appraisal methodologies for extending credit to these segments by leveraging alternate data sources and big data analytics.

PSBs have worked well to serve the customer at the bottom of the pyramid. Customer surveys, growth in credit and rising deposits among those on the margin of the formal banking system indicate continued customer confidence in PSBs. Through continued reforms, PSBs will be well placed to deepen the confidence placed in them and continue their contribution to the socio-economic growth at the bottom of the pyramid.

[63] As on 31 March 2018; Source: Annual Report RBI, 2017-2018

CLEAN CREDIT CULTURE

BACKGROUND

Banks are in the business of taking on credit risk in the process of lending. While NPAs are unavoidable, it is important to recognise their adverse impact on the financial health of banks. Excessive NPAs can potentially create system-wide stress, risking overall economic growth and public confidence in the banking system. PSBs faced excessive build-up of NPAs over the last few years. The Government and PSBs took significant steps to not only address the immediate challenge of NPA recognition and recovery, but also introduced a number of reforms with the aim of addressing the root causes and creating systematic preventive mechanisms to avoid recurrence of the problems. A number of such initiatives are showing results and helping build a clean credit culture.

Build-up of stress in Indian Banking Industry

By the end of FY18, gross NPA in the Indian banking industry stood at ₹10.40 lakh crore[64], of which ₹8.96 lakh crore was with PSBs. There were multiple factors for this extent of stress. Multiple drivers have been attributed by various observers for the increase in stress, including, *inter alia*, aggressive lending, lack of robust lending practices, wilful defaults, frauds, economic slowdown and misconduct in certain cases[65].

The period of FY08 to FY14 had witnessed aggressive growth in gross advances of PSBs, amid economic slowdown. Gross advances of PSBs[66] increased nearly 3 times, from ₹18 lakh crore to ₹52 lakh crore in this time period, at a CAGR of 19 percent. Part of this aggressive credit growth eventually led to higher NPAs.

'PSB Manthan', held in November 2017, further identified some practices in PSBs that contributed to the build-up of stress. These identified factors included, *inter alia*, lack of credit discipline, lack of domain expertise for loans of a specialised nature, inadequate techno-economic valuation, non- separation of sanctioning and monitoring roles.

An important measure taken by RBI to strengthen the banking industry in the aftermath of the global financial crisis was the granting of special regulatory treatment for restructured accounts in January 2009[67]. All standard restructured accounts were to be classified as standard accounts under certain conditions[68]. A large part of the building stress thus remained hidden in the form of Standard Restructured Assets (SRA). In PSB, these SRAs continuously exceeded gross NPA from FY09 to FY15. Due to the actual level of NPA remaining hidden, provisions against potential losses and actions to address the situation were delayed, aggravating the situation.

The 4R's Strategy

The large build-up of stress resulted in significant deterioration in several key performance parameters of PSBs. With the recognition of the stress since 2015, the adverse impact of the hidden stress on key financials became manifest.

To address the problem, since 2015, the Government has implemented a comprehensive 4R's strategy of Recognising NPAs transparently, Resolution and recovery, Recapitalising PSBs and Reforms in the financial ecosystem and PSBs. The first three R's are aimed at cleaning the balance sheets of banks. The reforms are aimed at systemic change to address root causes so that the risk of recurrence of excessive stress is minimised. The reforms address key areas in PSBs — viz., governance, prudential lending, risk management, technology-driven checks and controls and SMART banking — as well as transparency and accountability in the wider financial ecosystem.

[64] Source: Global Operations GNPA for all scheduled commercial banks
[65] Source: Lok Sabha Starred Question No. †*179 by Shri Kirti Azad and Dr Bharatiben D. Shyal, answered on 21 December 2018
[66] Global operations
[67] Source: RBI/2008-09/340 - DBOD.BP.No.104/21.04.132/2008-09
[68] Excluding commercial real estate exposures, capital market exposures and personal and consumer loans

RECOGNITION OF NPAs

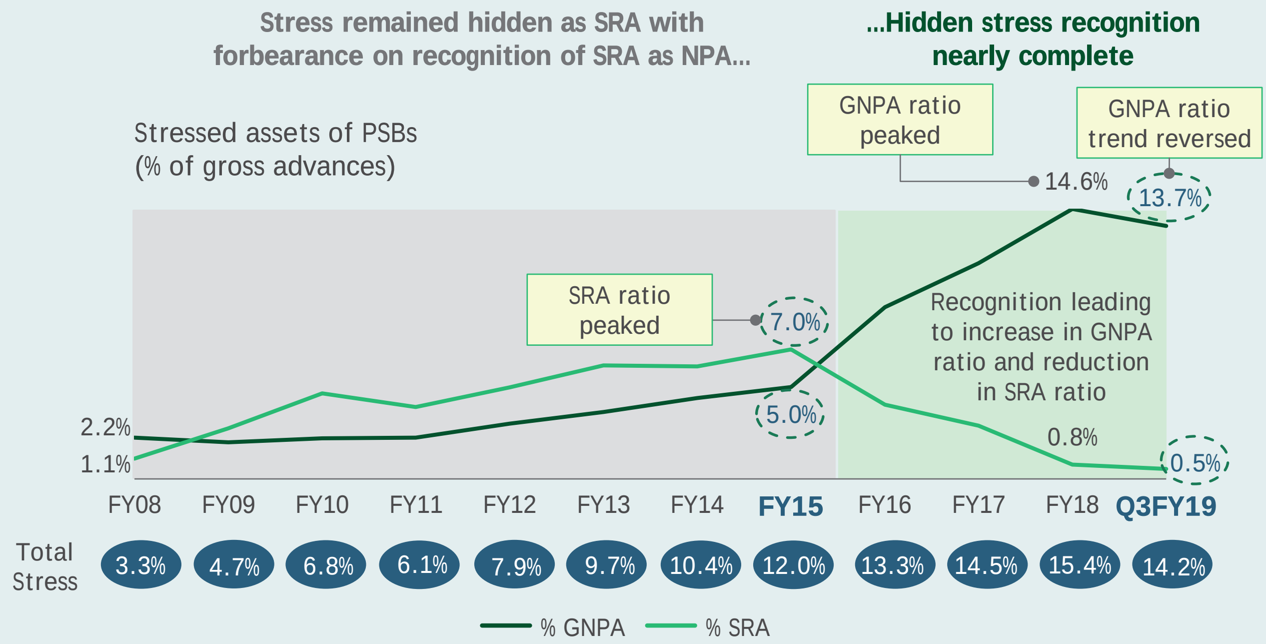
Proper classification of stressed assets as NPAs is imperative to correctly assess the extent of the actual level of the NPA problem and the true value of the asset base. It also leads to enhanced provisioning to account for the expected losses on such assets. By the end of FY15, total stressed assets of PSBs had risen to 12.0 percent of gross advances. Out of this, 7.0 percent were SRAs, which remained hidden.

Multiple steps were taken for comprehensive recognition of NPAs:

- **Asset Quality Review (AQR):** AQR was conducted by RBI, starting in FY16, for transparent borrower-wise asset classification across banks. The process leveraged the CRILC database set up in 2014, which provided aggregate view of borrower-wise exposures and asset classification for outstanding exposure of more than ₹5 crore across all banks.
- **Withdrawal of forbearance on asset classification:** Regulatory forbearance on restructured assets was withdrawn[69] with effect from April 2015. Further, during Q4FY18, all schemes for restructuring stressed loans[70] were withdrawn for loans greater than ₹25 crore[71].
- **Transparency in asset classification:** PSBs have ensured disclosing of divergence in banks' asset qualification from RBI norms and classification and reporting of all NPAs transparently.

As a result of these initiatives in transparent recognition of GNPA, PSBs witnessed a sharp increase of 88 percent in GNPA over a year, from March 2015 to March 2016. Consistent efforts have led to hidden stress being nearly fully recognised. SRAs in PSBs have reduced from a peak of ₹3.93 lakh crore (7.0 percent of gross advances) by the end of FY15 to ₹0.34 lakh crore (0.5 percent of gross advances) by the end of Q3FY19[72]. Over the same period, gross NPAs of PSBs increased from 5.0 percent to 13.7 percent of gross advances.

EXHIBIT 25 | Stress recognition in PSBs almost complete, GNPA trend reversed



Note: Stressed assets for domestic operations till FY14 and for global operations post FY14
Source: RBI

[69] Source: RBI Circular: RBI/2012-13/514 DBOD.BP.BC.No. 99/21.04.132/2012-13
[70] Restructuring schemes such as Corporate Debt Restructuring and Strategic Debt Restructuring (SDR) were rolled back
[71] Source: RBI Circular: RBI/2017-2018/131DBR.No.BP.BC.101/21.04.048/2017-18
[72] Source: RBI

RESOLUTION AND RECOVERY PROCESS

With reclassification of assets and the proper recognition of stress, the size of the NPA problem faced by the banks became apparent. Recovery and resolution efforts were expedited through multiple ways. Historically, NPA resolution in India was fraught with challenges due to the corporate debtor remaining in control of its affairs. Borrowers retained control during the resolution process, leading to suboptimal outcomes for lenders. These existing inefficiencies were addressed through a significant intervention in the form of IBC - a transformative legislation to deal with insolvency and bankruptcy, which has put creditors in control of the resolution process.

Various additional measures have been undertaken by the Government to deter defaulters and strengthen the recovery mechanism. PSBs have also focussed on reforms and begun the process of strengthening their internal recovery mechanism and processes to intensify resolution and recovery from stressed accounts.

IBC: Transformative framework for NPA resolution

IBC was enacted as a comprehensive law for time-bound resolution of insolvency and bankruptcy of business entities[73], by consolidating previously existing frameworks. IBC incorporates a number of best practices seen in similar laws in other countries[74] and has led to a 21 rank jump in India's 'ease in insolvency resolution' in the World Bank's ease of doing business report.

EXHIBIT 26 | IBC strengthening lenders' ability to drive resolution

Elements of insolvency resolution	Before IBC- 'Debtors in control'	After IBC- 'Creditors in control'
Starting bankruptcy proceedings	• Only debtors allowed to initiate proceedings • Negative net worth used as a criteria for commencement	• Creditor can start proceedings, even if default against another creditor • Default of more than ₹1 Lakh used as a criteria
Creditor participation in resolution process	• No participation of creditors, liquidator appointed by court	• Creditors' committee appoints Resolution professional (RP) • Creditors' approval required for all major decisions during the process
Management of debtor's assets	• Debtors retain possession and management till proceedings completed	• Management rights taken away from debtors under Section 29(A) • All decision rights of business rest with RP till proceedings completed

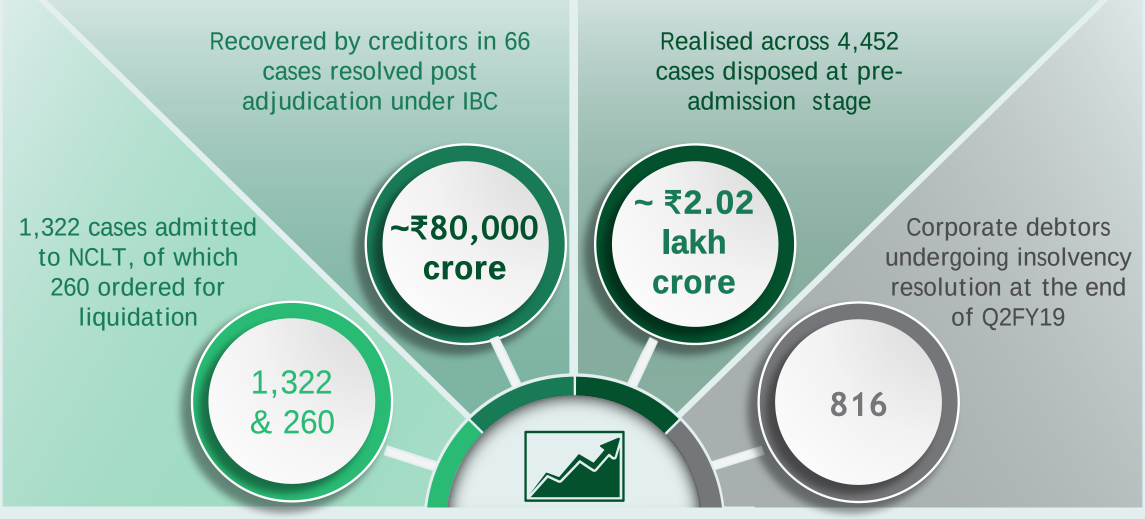
Source: IBBI

IBC was further strengthened in November 2017 with amendments that, *inter alia*, barred wilful defaulters and related parties to the NPA cases from submitting a resolution plan. The Banking Regulation Act, 1949 was amended to authorise RBI to issue directions to banks to initiate insolvency proceedings under IBC. Time-bound resolution process, higher priority in claims and moratorium on other claims while the resolution process is in progress are also important aspects of IBC, which improve prospects of NPA recovery for banks.

[73] Provisions of IBC apply to companies incorporated under the Companies Act 2013 or under previous company laws or any special Act in force at the time, any Limited Liability Partnership (LLP) under the LLP Act 2008, personal guarantors to corporate debtors, partnership firms and proprietorship firms, individuals
[74] Ease of doing business report by World Bank 2017, 2019

The first two years of IBC have seen significant traction and impact.

EXHIBIT 27 | IBC fast-tracking recovery, improving ease of insolvency resolution



Source: 'Two years of Insolvency and Bankruptcy Board'- IBBI, January 2019

Additional measures to deter defaulters and expedite recovery

The Government has taken a number of additional measures, not only to accelerate recovery of NPAs, but also to deter wilful defaulters and borrowers from creating impediments in the NPA resolution process:

Identifying and initiating action in wilful default/fraud cases

The Government and RBI have taken a number of steps to expedite identification of wilful defaulters and fraud cases and to drive action against them[75]:

- RBI has directed public listing of the names of suit-filed wilful defaulters. As of September 2018, 18,225 defaulters with an outstanding amount of above ₹1 crore and 9,910 above ₹25 lakh were listed in the public domain[76].
- Wilful defaulters prevented from getting additional loan facilities sanctioned.
- Entities linked to wilful default are debarred from floating new ventures for 5 years.
- Lenders empowered to initiate criminal proceedings against wilful defaulters.
- Wilful defaulters and companies with wilful defaulters as promoters/directors debarred from accessing capital markets to raise funds[77].
- Directive issued to PSBs in June 2018 to actively check NPA cases above ₹50 crore from the angle of wilful default and fraud

Institutionalizing clean credit culture

- **Fugitive Economic Offenders Act, 2018**: Enacted in 2018, the law enables action against offenders who avoid prosecution by remaining outside Indian jurisdiction
- **Passport details of borrowers mandatory for loans above ₹50 crore**: PSBs have been mandated to collect passport details of borrowers with more than ₹50 crore loans

[75] Lok Sabha Starred Question No.: † *64 by Shri Ram Tahal Choudhary, Shri Naranbhai Kacchadiya
[76] Listed on CIB- Transunion CIBIL's website
[77] As per Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011

- **PSB MDs and CEOs empowered to issue lookout notices**: PSB CEOs have been authorised to make requests for look-out circulars (LOCs) to be issued against suspected economic offenders

PSBs strengthening recovery processes

Alongside this strengthened policy for resolution, PSBs are also driving improvement in internal recovery systems and processes pursuant to the PSB Reforms **EASE** Agenda.

In many PSBs, action in respect of high-value stressed accounts resided across different branches. Branches typically do not have dedicated and specialised resources and also face constraints in timely decision-making as they have to secure higher-level approvals. All 21 PSBs have now set up dedicated stressed account management verticals (SAMV) with overall control in respect of large-value NPA accounts[78].

- PSBs are transferring NPA cases above the threshold of ₹25 crore or ₹50 crore, as is relevant to them, from branches to SAMV.
- SAMV monitors loan accounts above ₹50 crore that are overdue for 31-90 days (SMA 1 & 2).
- Senior bank officials are being deployed in these verticals and trained in requisite skills.

SAMV has been made fully responsible for pursuing NPA recovery, working independently of the bank branches. This dedicated SAM vertical has been gaining traction in all PSBs, with significant uptick in adoption and transfer of stressed assets for recovery and monitoring.

EXHIBIT 28 | Dedicated SAMV gaining traction in all PSBs

9 to 21 (All PSBs)	Increase in number of PSBs with dedicated SAMV from March 2018 to December 2018
35% to 89%	Increase in percentage of large NPA cases fully transferred to SAMV from March 2018 to December 2018
15% to 90%	Increase in percentage of SMA 1&2 cases monitored by SAMV from March 2018 to December 2018
₹7.3 lakh crore	Total value of NPA, SMA 1&2 cases currently handled by SAMV across 21 PSBs
₹9,456 crore	Recovery made by PSBs through SAMV in Q3FY19, over and above resolution through proceedings under IBC

Note: Data is for cases with outstanding exposure > ₹50 crore for large PSBs and > ₹25 crore for mid-sized PSBs
Source: EASE Reforms Index

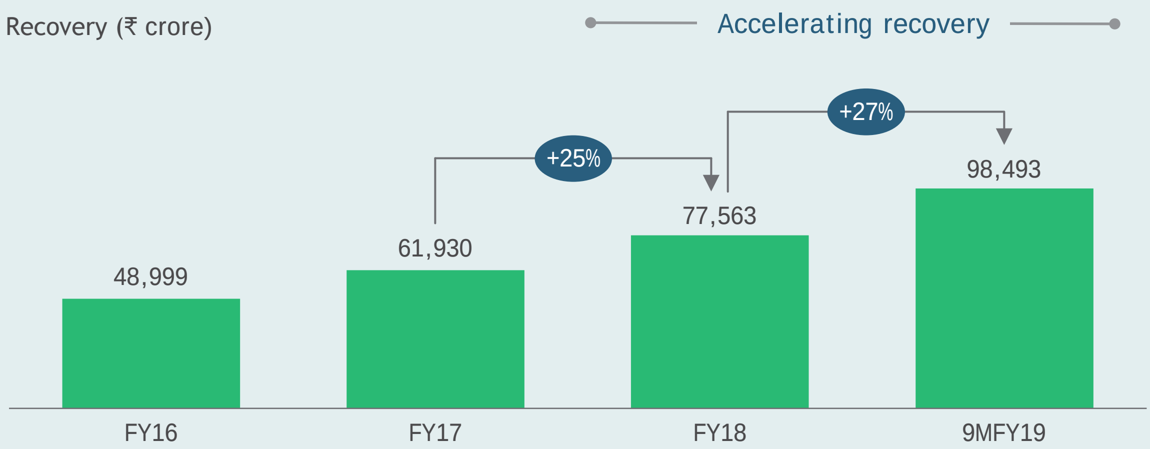
PSBs are also driving action on wilful default and fraud cases. They have taken up time-bound checking of all NPA cases above ₹50 crore from the angle of wilful default and fraud, coupled with action to expedite recovery and deter such acts. PSBs are also defining step-specific time limits for recovery and action against defaulters in all NPA cases with outstanding amount above ₹50 crore.

From June 2018 to December 2018, PSBs have checked accounts with outstanding amount of ₹1.4 lakh crore, involving 990 defaulters and initiated action in more than 170 cases identified as wilful default[78]. Till September 2018, PSBs have registered 2,571 FIRs against wilful defaulters, filed 9,363 suits for recovery from them and initiated action in 7,616 cases under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002.[79]

The impact of initiatives undertaken by PSBs, along with the efficacy of IBC and other recovery strengthening measures mentioned above, can be seen by the extent of recovery effected by them over time. ₹98,493 crore has been recovered by PSBs in FY19 till Q3, which is 100 percent growth over the same period in the previous financial year.

[78] Source: **EASE** Reforms Index
[79] Lok Sabha Starred Question No.: † *64 by Shri Ram Tahal Choudhary, Shri Naranbhai Kacchadiya

EXHIBIT 29 | ₹2.87 Lakh Crore recovered since FY15, recovery now accelerating



Source: RBI

RECAPITALISATION OF PSBs

Even though PSBs are showing operating profits, some of them have faced pressure on capital adequacy in the recent past, driven by higher provision for NPAs and mark-to-market losses on bond portfolio[80]. Infusion of capital is important for both business growth and meeting regulatory norms. Consistent capital infusion by the Government, in addition to the improvement in the financial position of banks, is likely to increase investor confidence and will enable PSBs to raise more capital through equity markets.

Infusion of capital by the Government

The Government has undertaken recapitalisation to strengthen the capital base of PSBs, which was depleted as a result of transparent recognition of stressed accounts as NPAs. In August 2015, the Government announced the Indradhanush plan to infuse ₹70,000 crore over four financial years[81].

The results of AQR in December 2015 revealed higher than anticipated NPAs, necessitating announcement of further recapitalisation in October 2017, amounting to ₹2,11,000 crore. This included the remaining outlay of ₹18,139 crore under the Indradhanush plan and the mobilisation of about ₹58,000 crore from the markets by PSBs. The envisaged capital infusion was enhanced by ₹41,000 crore in January 2019.

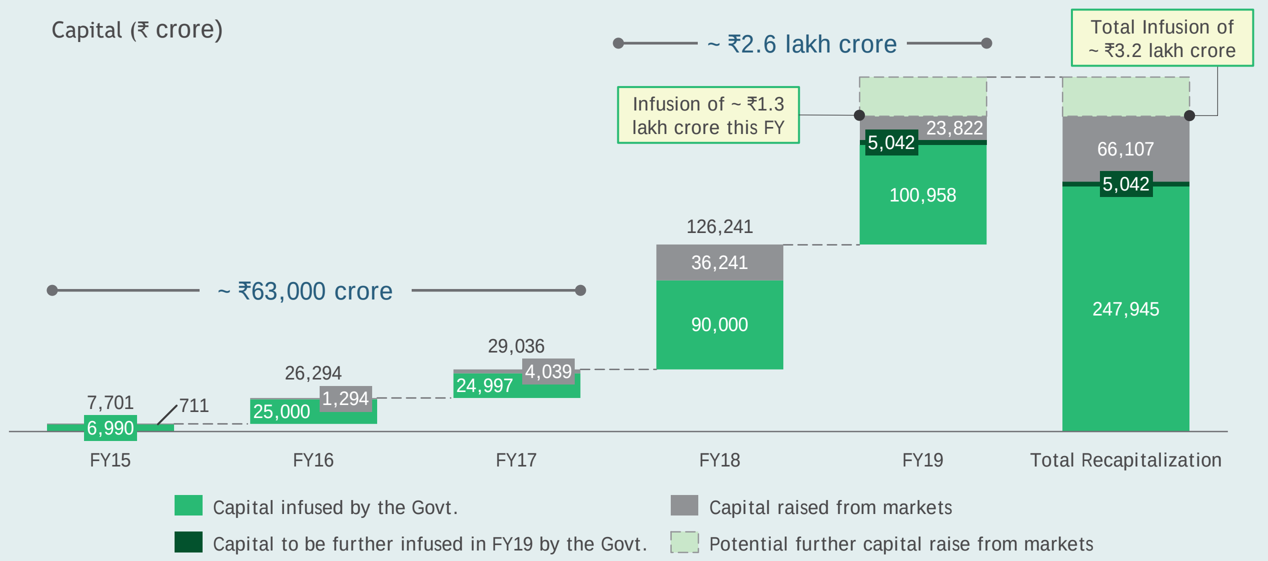
The Government has already infused nearly ₹2.5 lakh crore from FY15 until February 2019 and ₹5,042 crore more is planned to be infused by the end of FY19[81].

Capital raising by PSBs over and above infusion by the Government

Since FY15, PSBs have mobilised ₹66,107 crore by raising fresh equity capital from the markets and through monetisation of non-core assets.[82] With proactive capital infusion by the Government and improvement in PSBs' financial performance, they are expected to be better positioned to raise capital from equity markets as a result of improved investor attractiveness, with corresponding valuation gains for all shareholders, including the Government.

[80] Source: PSB data for FY18, H1FY19
[81] Source: Ministry of Finance
[82] Including ₹11,059 crore infused by LIC in IDBI Bank Ltd. in December 2018

EXHIBIT 30 | Total capital raised by PSBs since FY15



Source: Ministry of Finance

PSB initiatives to manage capital effectively

In addition to raising of fresh capital, PSBs are also taking various initiatives for prudent capital management and effective utilisation of the infused capital:

- **Managing capital exposure:** PSBs are taking steps towards rebalancing the ratio of risk weighted assets (credit) to gross advances. Such rebalancing is expected to not only reduce their capital requirement but also equip them to lend out more credit in key sectors of growth. PSBs, as a whole, have reduced this ratio from 80.3 percent to 71.2 percent in one year, from September 2017 to September 2018.[83]
- **Recalling Additional Tier-1 (AT-1) bonds:** From FY14 to FY17, PSBs raised ₹60,385 crore through AT-1 bonds[84]. These bonds have high interest rates and the interest is payable from profits and reserves. Many PSBs have now recalled these bonds, thereby reducing the effective cost of capital.

REFORM FOR CLEAN CREDIT CULTURE

Along with recognition, resolution and recapitalisation, accelerating structural reforms was imperative to transform PSBs. Multiple reform initiatives have been undertaken by the Government and PSBs to strengthen the clean credit culture and to ensure increase in prudent lending, improved availability of credit to deserving borrowers and reduced accretion of stress in the future.

PSBs strengthening credit underwriting and monitoring processes

PSBs have made significant progress against a number of Action Points pertaining to improvements in the credit process in the PSB Reforms **EASE** Agenda[85]:

- **Improving credit policy and appraisal process:** All 21 PSBs have addressed gaps in credit policy and appraisal process. Especially for loans above ₹50 crore, the process is codified to holistically

[83] Data as on 30 September 2018; Source: **EASE** Reforms Index
[84] Source: Ministry of Finance
[85] As of 31 December 2018; Source: **EASE** Reforms Index

appraise loan proposals including, *inter alia*, ring-fencing of cash-flows, evaluation of tail risk and analysis of backward, forward linkages.

- **In-house techno-economic valuation cells:** PSBs typically relied on third-party assessment of techno-economic feasibility of projects. PSBs are setting up and are strengthening in-house techno-economic valuation cells by deploying specialist employees across legal, technical, financial domains.
- **Minimum 10 percent participation in consortiums:** A number of large loans are sanctioned by consortium of banks. Eighteen PSBs have adopted board-approved policy to have minimum 10 percent participation in consortium loans. This is likely to restrict the number of consortium members to less than or equal to 10, increasing the efficiency of the consortium decision making process.
- **Standard Operating Procedure (SOP) for conduct of consortiums:** 13 PSBs have adopted SOP prepared by IBA with respect to credit appraisal and monitoring in consortiums. This is likely to ensure common methodology of process evaluation and coordinated action for disbursements and loan monitoring. Other PSBs are in the process of adopting the SOP in Q4FY19.
- **100 percent segregation of pre and post sanction roles with respect to large loans:** 20 PSBs have effected 100 percent segregation in pre and post sanction roles across credit appraisal, monitoring and recovery with respect to loans above ₹50 crore. Different employees perform these roles and their immediate reporting authority is also segregated. The remaining one PSB is also in the process of implementing such a structure.
- **Appointment of Agencies for Specialised Monitoring (ASM) for large loans:** IBA has released a framework in October 2018 for the appointment of ASMs qualified in monitoring the technical, financial and legal aspects of project loans above ₹250 crore. PSBs are in the process of appointing such agencies.

Government initiatives towards improving clean credit culture

The Government has also taken significant measures to drive towards a clean credit culture:

- **Deregistration of inoperative (shell) companies:** The Government accelerated the process of deregistering companies that are not prima facie operational or have not filed their annual returns since FY18. The use of an investment structure involving multiple companies by borrowers was creating an impediment in the recovery process and also leading to siphoning off of money. De-registration of these companies will potentially reduce borrowers' ability to use such inoperative companies in the investment structure and to hoard black money. 2.26 lakh inoperative ("shell") companies were identified for deregistration and their bank accounts frozen by the end of FY18. The process has continued in FY19 with the freezing of bank accounts of an additional 1.12 lakh companies[86].
- **National Finance Reporting Authority (NFRA) operationalised:** NFRA was operationalised in FY19 with multiple objectives including, *inter alia,* monitoring and enforcing compliance with accounting standards and overseeing the quality of service of the compliance professionals, such as Chartered Accountants and auditors[87].
- **Strengthening PSB governance and increasing their independence:** The Government has also taken multiple steps to strengthen PSB governance and increase their independence:
  - Bifurcation of the CMD position into those of non-executive Chairman (NEC) and Managing Director (MD) & CEO.

[86] Until 20 December 2018; Source: ROC, Ministry of Finance
[87] Source: Ministry of Corporate Affairs

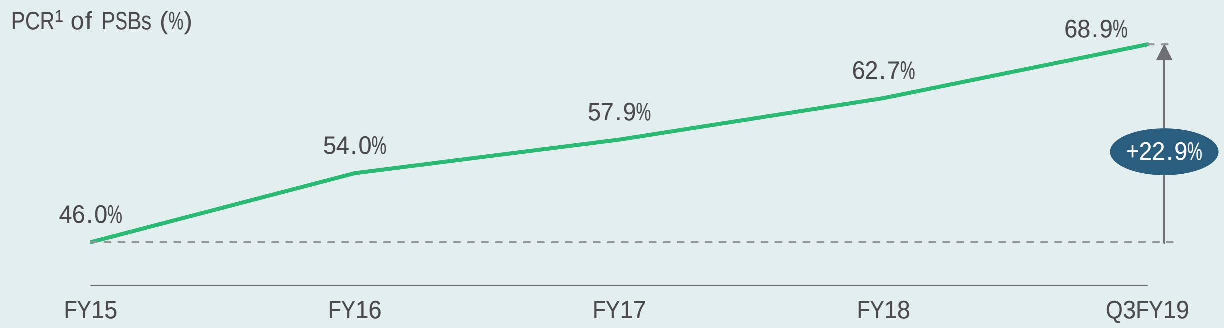
- NECs and WTDs to be appointed on the recommendations of the Banks Bureau Board, which has majority outside expertise and includes expertise drawn from the banking regulator as well as private sector banks.
- Talent pool for MD selection widened through open recruitment in 5 large PSBs
- Extension of tenure of WTDs made performance-based

PSBs SHOWING VISIBLE SIGNS OF IMPROVED CREDIT PERFORMANCE

Increase in provisions against NPAs

Recognition of stress has helped banks to create appropriate provisions to absorb potential future losses arising due to NPAs. This provides clearer understanding to banks and investors about adequacy and requirement of capital for future growth. PSBs have made provision of ₹8.12 lakh crore since recognition began in FY15 till December 2018[88]. As a result, the Provision Coverage Ratio (PCR) of PSBs (inclusive of provision held against technically written-off accounts) has registered substantial improvement, from 46.0 percent by the end of FY15 to 68.9 percent in by the end of Q3FY19[89].

EXHIBIT 31 | PSBs have increased NPA provision significantly



1. PCR including Technically Written Off accounts; includes provisional numbers for Q3FY19
Source: RBI

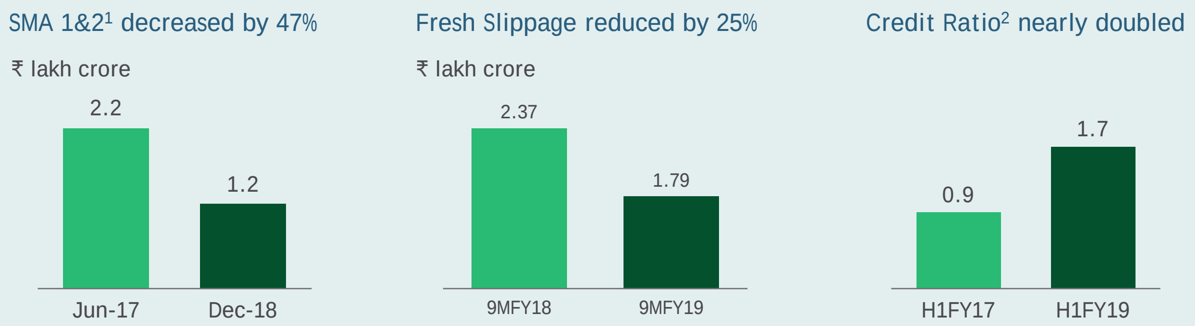
Improvement in stress indicators

GNPA has already shown trend reversal and reduced from ₹8.96 lakh crore by the end of FY18 to ₹8.64 lakh crore by the end of Q3FY19[90]. Further stress accretion in PSBs is also expected to slow down with multiple indicators suggesting that the quality of credit of PSBs is improving:

- **SMA 1 & 2 are reducing:** The quantum of PSB loans in SMA 1 & 2 category, which is a lead indicator of NPA, has reduced steadily. This pool of loans has reduced by 47 percent from ₹2.25 lakh crore in June 2017 to ₹1.18 lakh crore in December 2018[91].
- **Fresh slippage is reducing:** Accretion of fresh NPA (slippage) reported by PSBs by December 2018 (YTD) is significantly lower compared to December 2017 (YTD).[92] There is a 25 percent decline in fresh slippage, from ₹2.37 lakh crore to ₹1.79 lakh crore.
- **Credit Ratio (Credit rating upgrades to downgrades) is improving:** Credit Ratio nearly doubled from 0.9 to 1.7 from H1FY17 to H1FY19[93]

[88] Ministry of Finance
[89] Source: RBI
[90] Global operations; Source: RBI
[91] From July 2017 to December 2018; Source: Ministry of Finance
[92] Source: Ministry of Finance
[93] Source: CRISIL Ratings Round-Up, First half, fiscal 2019

EXHIBIT 32 | Improvement in multiple stress indicators



1. Data for accounts having o/s amount above ₹5 crore 2. Credit rating upgrades to downgrades- twelve month rolling ratio
Source: RBI, Ministry of Finance, CRISIL, BCG analysis

WAY FORWARD

With nearly complete recognition of hidden stress, recovery and reforms will be the primary focus for PSBs in order to strengthen the clean credit culture.

Consistent and strong recovery of NPA is and will continue to be, a key priority for PSBs. PSBs have made a beginning in strengthening their capabilities in this regard through the operationalisation of dedicated and focused teams for recovery by setting up the SAMV. SAMV has gained significant traction among all PSBs in FY19, especially with the PSB Reforms **EASE** Agenda incentivizing them to build and start transferring both NPA and SMA1 & 2 cases to it. PSBs will need to continue strengthening the structure and processes of SAMV to accelerate its recovery impact.

The initial success of SAMV, as seen by the recovery impact it has already had over a short period, can be replicated by PSBs through similar focusing of recovery efforts on other lending segments. Designated teams for different sectors can potentially drive improved recovery in these lending segments, helping boost the overall recovery for PSBs.

In addition, another priority area is stepping up recovery from auctioning mortgaged properties of NPA cases where SARFAESI action has been initiated. In NPA cases above ₹5 crore, cases with SARFAESI action initiated accounted for more than ₹3.8 lakh crore outstanding as on December 2018. PSBs currently experience a low success rate in auctions, causing them to incur recurring costs of maintaining and re-auctioning properties. To help address this issue, IBA and PSBs have set up **e-विक्रय** portal as a single window for information on property auctions across all PSBs. The portal, which provides listing as well as comprehensive data of properties, is expected to improve customer experience, reduce information asymmetry, enhance bid volumes and generate data for future analytics. All PSBs are on board the platform as of February 2019.

PSBs have also made a strong start in the implementation of new and improved processes for underwriting and monitoring under the PSB Reforms **EASE** Agenda. These changes will need the support of the PSBs' existing infrastructure to ensure their complete adoption. Once these processes have been fully entrenched in PSBs, efforts can be made towards even more advanced systems and processes for both underwriting and monitoring. Data analytics can be used to build a more robust and comprehensive underwriting process, early warning systems can be further developed to ensure that stress is recognised at an early stage and its negative impact on the system minimised.

The monetisation of non-core assets by PSBs has gained momentum now and PSBs have identified a significant amount of assets for monetisation. Efforts now need to be made to expedite the process of realizing money from the sale of these assets.

PSB Reforms **EASE** Agenda has been a major catalyst in growth and development across all these areas for PSBs and will help consolidate the gains made over the years to come.

USHERING SMART BANKING

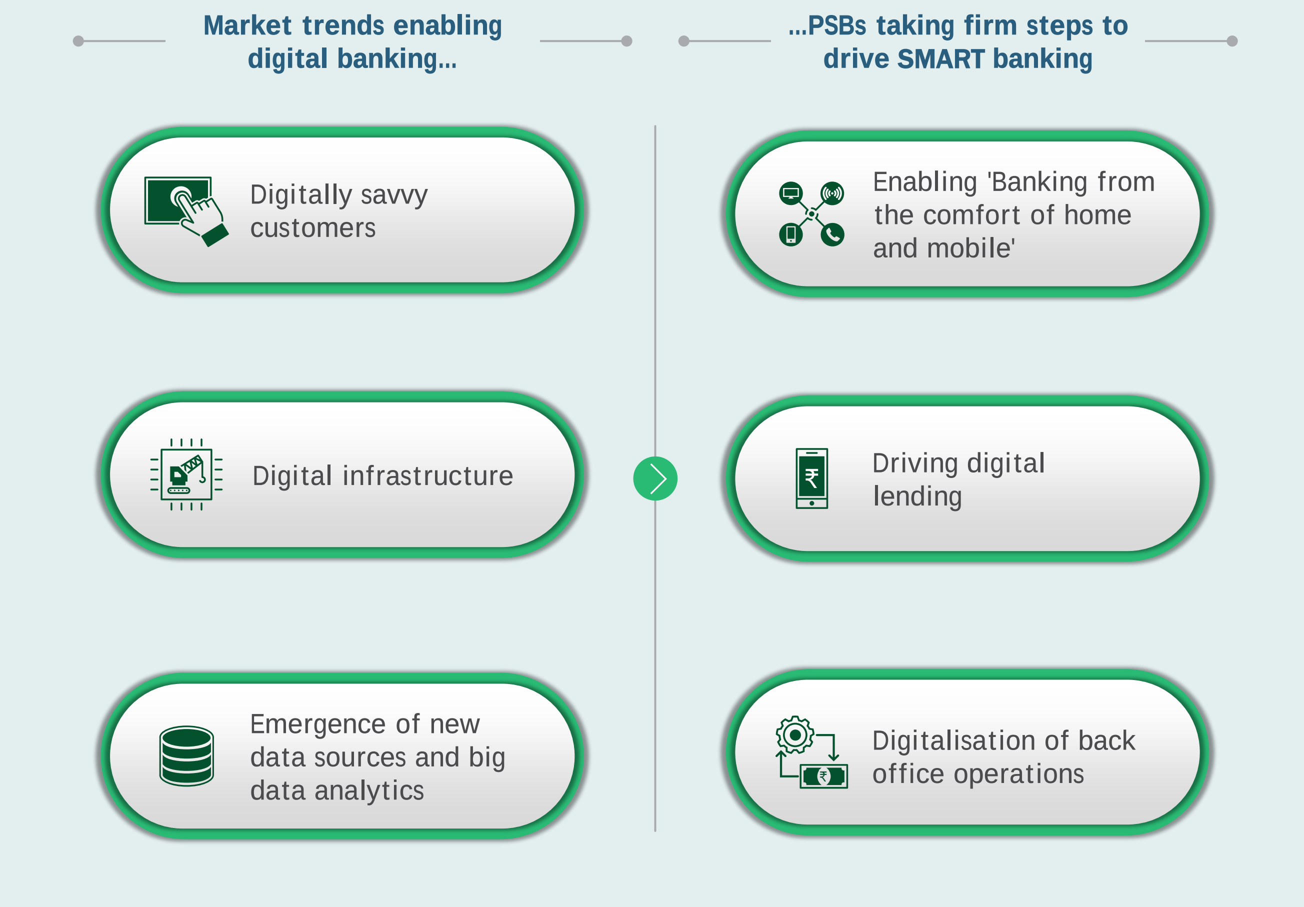
OVERVIEW

Digital is becoming a way of life in India over the past few years as smartphones empower Indians to do almost anything, anytime from anywhere. Internet penetration, cheap data usage and the rise of local language Internet user puts the country in a sweet spot for digital disruption. India is today the second-biggest market in terms of smartphone users, after China. Internet penetration has increased from 25 percent in 2015 to 42 percent[94] in 2018, fuelling the growth of businesses from brick-and-mortar to digital.

The digital wave is disrupting several industries including health, education and travel among others. The most notable influence, however, has been in banking and financial services. Rising digital penetration, emergence of new online data sources and entry of new players in the market are disrupting traditional banking business models. Banks are leveraging digital not only to deliver superior customer experience but also to reduce transaction costs. For e.g., marginal cost of digital transactions is less than 5 percent[95] of physical transactions.

PSB customers have traditionally relied on branch-based channel for banking. However, they are adopting digital banking rapidly. Recognizing the change, PSBs are taking reformative steps towards digitalisation and are driving **SMART** (Speedy, Multi-channel reach, Accessible and Affordable, Responsive, Technologically enhanced) banking. The Government, on its part, has also sought to drive digital banking by undertaking key initiatives that include the formalisation of MSMEs through GST and the creation of digital infrastructure for banking among others.

EXHIBIT 33 | PSBs driving SMART banking



[94] Source: TRAI
[95] Source: BCG analysis

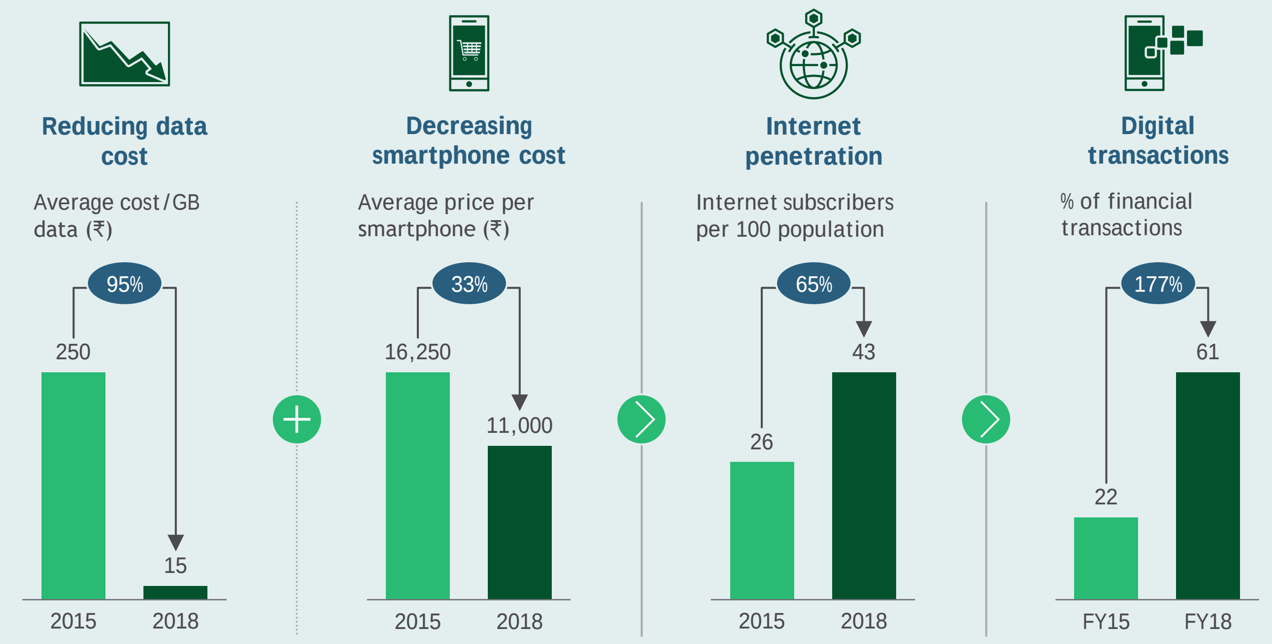
MARKET TRENDS ENABLING DIGITAL BANKING

Digitally savvy customers

The last decade has seen Indian consumers embrace digital technology rapidly. The reasons are many. Internet users grew from 33 crore in September 2015 to 56 crore in September 2018[96]. This was driven by a unidirectional 95 percent reduction in data cost, making India the cheapest country in the world for data usage. Alongside, the smartphone cost also reduced by 33 percent over the same period. Small screen devices lead Internet penetration in India. Within a span of 3 years, between September 2015 and 2018, mobile wireless subscribers[97] grew from 30 crore to 54 crore.

These enablers have led to increase in online banking penetration. Between FY15 and FY18, digital banking transactions in India have tripled to reach 61 percent of total financial transactions by the end of FY18.

EXHIBIT 34 | Digital enablers leading to increase in digital transactions



Source: Credit Suisse report- “India Market Strategy”, 2018; "The Mobile Economy"- GSMA; IDC Quarterly Mobile Phone Tracker - Final Historical, 2018 Q2; BCG 2015 B2B survey, TRAI, RBI, NPCI, BCG FIBAC, BCG analysis

Digital infrastructure

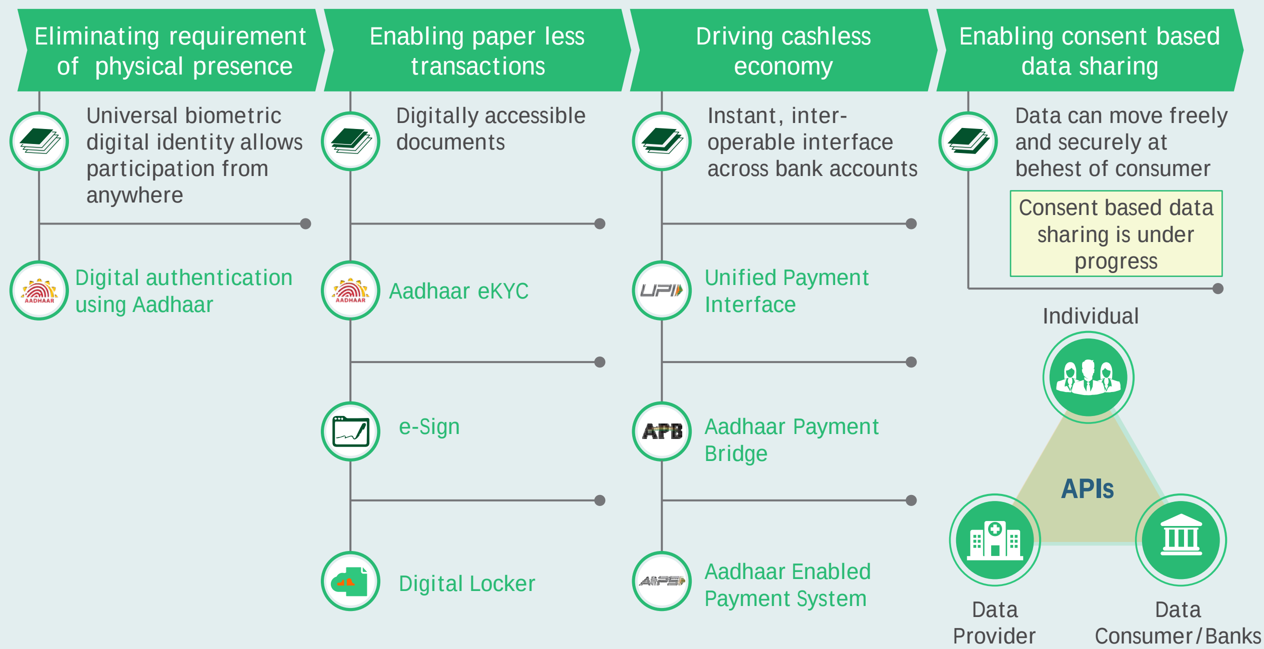
The Government has rolled out a number of initiatives over the last five years that have helped in driving **SMART** banking. Most notable among these are the creation of digital infrastructure to support digital banking and the rollout of the Goods & Services Tax (GST) with GSTN capturing invoice-level data electronically.

[96] Source: TRAI – The Indian Telecom Service Performance Indicators Report
[97] Mobile wireless subscribers include mobile and dongle; Source: TRAI – The Indian Telecom Service Performance Indicators Report

Creation of digital infrastructure

The vision behind creating digital infrastructure is primarily to cover the four elements of digital banking – eliminating requirement of physical presence, enabling paperless transactions, driving cashless economy and enabling content-based data sharing. Three of these elements have already been operationalised, viz., facilitating presence-less transactions through digital authentication, paperless transaction through digitally accessible documents and digital payments through interoperable platforms. The development of the fourth element, to facilitate consent-based customer data sharing with banks, is under progress.

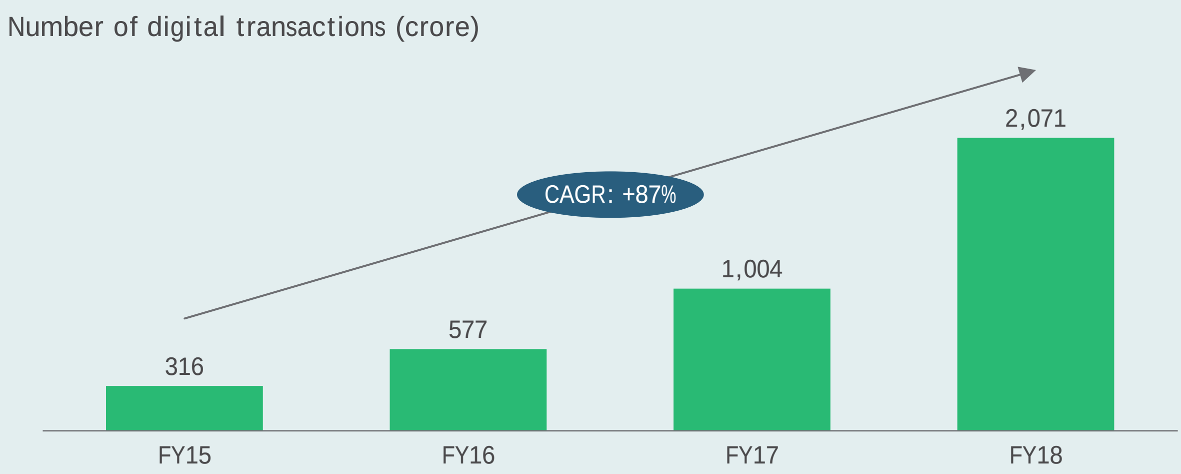
EXHIBIT 35 | Different components of digital infrastructure



Source: UIDAI, CCI, NPCI, Digital India, BCG analysis

All these components are leading to a surge in digital transactions as shown below.

EXHIBIT 36 | Growth in overall digital transactions



Source: NPCI

EXHIBIT 37 | Growth in monthly transactions of UPI, eKYC and AePS

1. eKYC for all financial services for e.g., any financial instrument account opening, update of address and phone number with banks, etc.; data prior to March 2016 is not available 2. Various banks and non-bank entities suspended e-KYC services following the Supreme Court's verdict on Aadhaar dated 26 September 2018

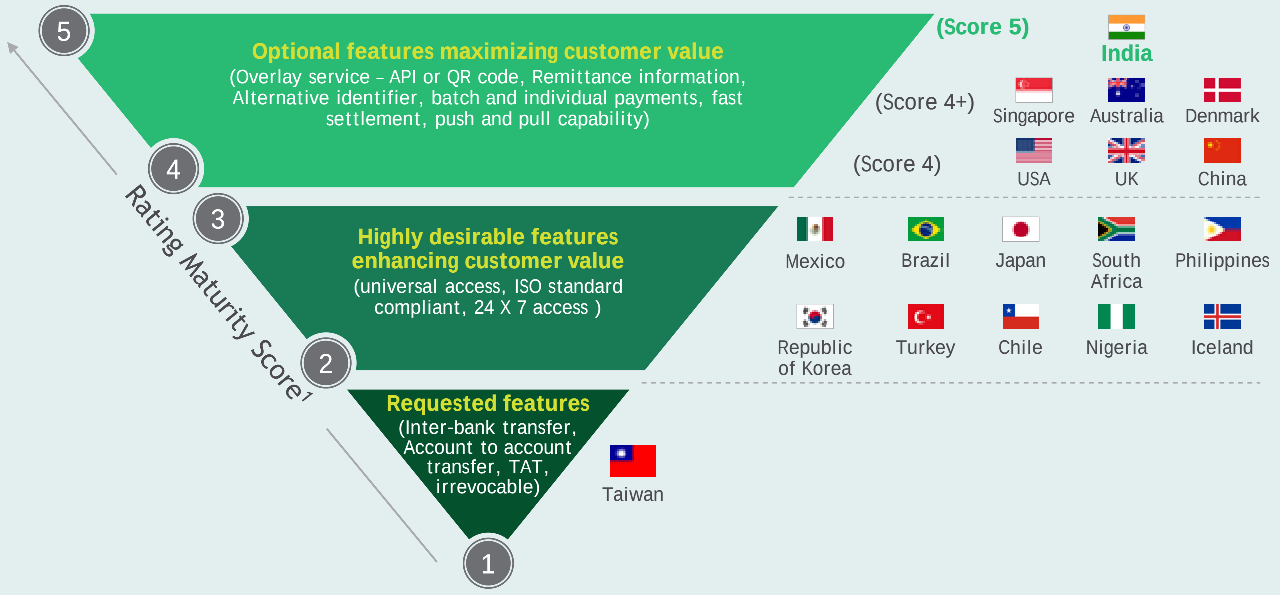
Source: NPCI

Unified Payments Interface (UPI)

Since its launch, UPI has transformed the digital payments trajectory in India with more than 62 crore transactions on UPI platform as compared to nearly 17 crore transactions on IMPS98F1 in December 2018 alone. UPI is conceived as a public API infrastructure, enabling third-party payment service providers to build innovative solutions and customer interfaces and offer interoperability across transaction platforms. UPI facilitates ease of transacting by providing a single identity to users across payment platforms and by creating a single authentication entity (UIDAI).

A global study conducted by Fidelity National Information Services Inc. (FIS) 99F1 in 2018 rated India's immediate payment system as the most evolved public digital infrastructure in the world. With the introduction of advanced features in UPI in 2016, India's score moved up from 4 to 5 (out of 5 point scale).

EXHIBIT 38 | Scores of select key countries as per sophistication of payment systems



1. FIS assigns scores to countries basis sophistication of payment system and future potential for innovations, highest score of 5
Source: FIS – Flavors of FAST report 2018; https://www.fisglobal.com/flavors-of-fast

MSME formalisation driven by GST

The Government introduced the Goods and Services Tax (GST) to simplify indirect taxes and increase tax reporting. About 98 lakh entities have registered under GST – a 50 percent increase from the previous tax regime[98].The GST initiative has formalised millions of MSMEs by bringing them under GST ambit. The shift to online tax reporting has created a rich database of MSMEs. Through the rollout of GSTN, the Government has created a centralised databank, which captures invoice-level data of MSMEs that is verified (invoice matched), granular, current (monthly/quarterly) and electronically accessible based on user consent. This is a big positive for MSMEs as formalisation with corresponding digital trail is helping them access formal credit.

These developments have led to the rapid increase in MSME formal credit, especially to micro enterprises. Micro loan segment (less than ₹1 crore loan size) has seen a growth of 21 percent from June 2018 to June 2017 in formal credit, as compared to 14 percent from June 2016 to June 2017.

EXHIBIT 39 | Credit growth accelerating post the launch of GST

Note: Consists of only on-balance sheet exposure
Source: TransUnion CIBIL MSME PULSE, September 2018

98 As of December 2017; Source: Economic Survey 2018

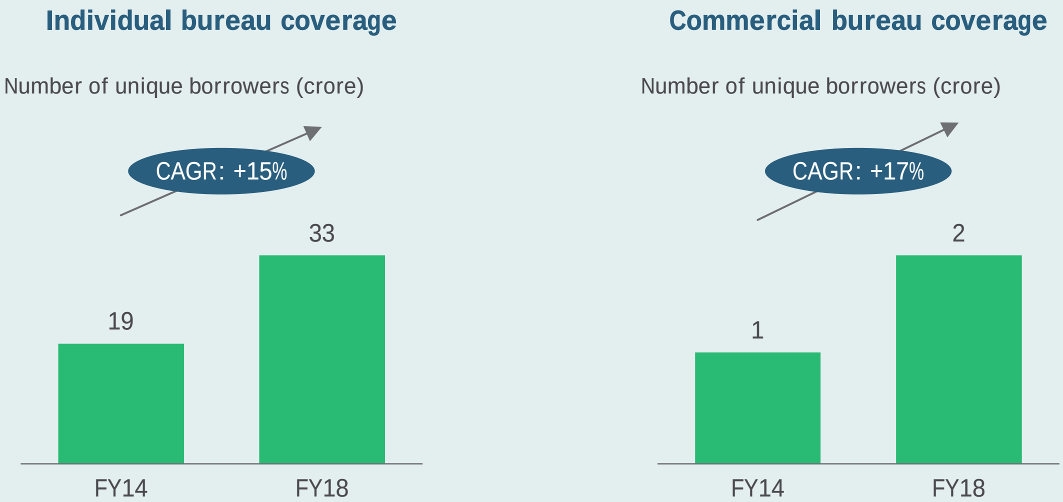
Emergence of new data sources and big data analytics

Information about the borrower forms the backbone of credit appraisal process in banks. Credit Information Companies (CICs) have been the primary source of independent customer information for Indian banks. The coverage of these credit bureaus is continuing to grow rapidly. With increase in digitalisation, alternative data sources have also emerged, providing more insights to banks for credit appraisal and customer service.

Strong credit bureau infrastructure

Credit bureau coverage in India has improved significantly over the last few years as more unique borrowers are being covered by both the individual and commercial bureaus.

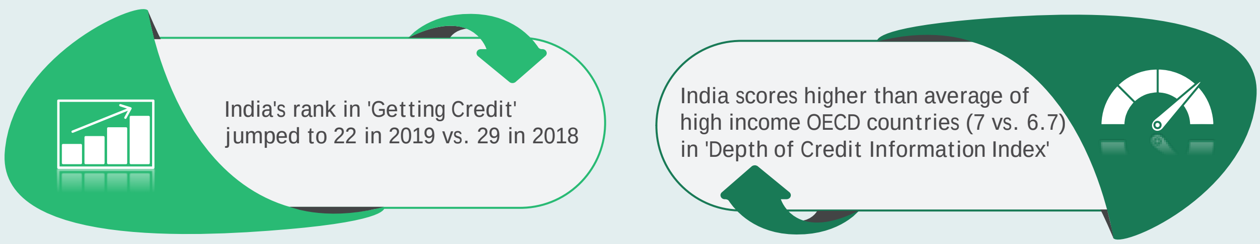
EXHIBIT 40 | Both Individual and Commercial bureau extending coverage



Source: TransUnion CIBIL, BCG analysis

India's credit bureau infrastructure is rated as 7/8 by the World Bank as part of the Ease of Doing Business Report 2019, higher than many high-income OECD countries. Because of its robust credit bureau infrastructure, India has obtained a rank of 22 on the 'Getting credit' parameter of the World Bank 'Ease of Doing Business' Report in 2019, up from the 29th rank in 2018.

EXHIBIT 41 | India's credit bureau strength recognised by World Bank



Note: 'Depth of Credit Information Index' ranks countries on detailed credit specific parameters such as the presence of a commercial bureau, leverage of credit bureau data to improve credit-worthiness of borrowers, etc.

Alternative data sources: Deepening the customer understanding

With increasing digitalisation, customers are generating unprecedented amount of data through multiple channels, for e.g., web search, social media, e-commerce, banking, among others. With the rapid strides made in creating digital infrastructure, Application Program Interfaces (APIs) are increasingly enabling banks to source multiple alternative data points with the consent of the customer. Some of these data points include invoice information through GSTN, litigation listing, SMS data, geo-location, social profile and so on.

Banks and other financial institutions are using such diverse data points to develop innovative models for customer on boarding, credit appraisal and monitoring. Lenders are already leveraging big data analytics to reduce the cost of customer acquisition, improve underwriting models and establish early warning systems.

PSBs TAKING FIRM STEPS TO DRIVE SMART BANKING

The trends mentioned earlier are leading to a paradigm shift in banking. PSBs are taking steps to improve customer comfort as well as build in efficiency and reduce costs by adopting digital.

Banking from the comfort of home and mobile

PSBs have traditionally faced challenges in driving digital adoption because of their customer profile. Although bank branches continue to be a prominent channel, digital channels are gaining traction. Keeping in accord with the changing customer behaviour, banks are steadily moving toward digital – enabling ‘Banking from the comfort of home and mobile’ through call centres, mobile banking and Internet banking.

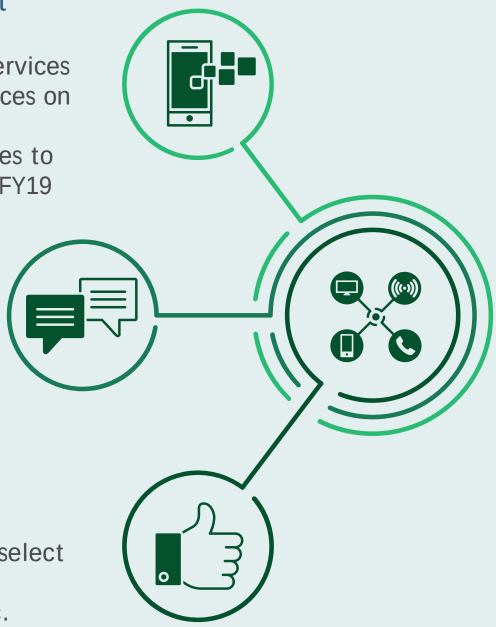
PSBs have identified 45 branch equivalent services to be provided through call centres and digital channels. They are also focusing on improving service in regional languages across these channels. The attempt is to make services available in the regional language of all states where the bank has more than 100 branches.

EXHIBIT 42 | Steps taken to enable 'Banking from the comfort of home and mobile'

Availability of branch equivalent services
- PSBs provide an average of 28 services on Internet banking and 19 services on mobile banking
- PSBs expected to add 10+ services to these channels by the end of Q4FY19

Availability of regional languages
- 87% customers of large PSBs can speak in their regional language with call centres

Improving quality of service on digital channels
- PSBs at par with other banks in select functionalities viz. account management, fund transfer, etc.



... Leading to higher digital adoption

80%+ YOY growth in financial and non-financial transactions through call centres, mobile and Internet banking (Q3FY19 vs. Q3FY18)

Source: **EASE** Reforms Index

Driving Digital Lending

In spite of the consistent focus on retail and MSME lending by the banking sector in the past decade, the formal financial system has been able to reach only a third of the estimated 22 crore credit-eligible customers in India[99]. Some of the reasons contributing to this are - unavailability of data for credit appraisal, high cost of customer acquisition and servicing and so on.

Creation of digital infrastructure and digitalisation of processes is helping address the problem and ‘digital lending’ is gaining traction as a result. It has the potential to benefit both the banks and the borrowers. Digital lending is helping drive high customer satisfaction through reduced turnaround time (TAT) and minimal documentation. Digitalisation of processes is also leading to significant (up to 75%[100]) reduction in the cost of lending.

PSBs Stepping Up To Drive Digital Lending

To drive digital lending and to improve credit reach to MSME, the Government of India has launched, with the help of PSBs, many digital portals in recent times. These include TReDS, UdyamiMitra and psbloansin59minutes.

- **TReDS:** TReDS is an online platform facilitating discounting of invoices/bills of exchange of MSME sellers, helping these businesses get immediate access to working capital.
  - All the 21 PSBs are registered on TreDS platform
  - In Q3FY19, 11 percent of the total bills discounted by PSBs were on the TreDS platform[101]
- **UdyamiMitra:** In FY17, SIDBI launched the UdyamiMitra portal to provide MSMEs easy access to credit by enabling entrepreneurs to apply for loans, track their application status online and avail multiple loan benefits without physically visiting bank branches. PSBs have been active participants on the portal since its launch. Loans sanctioned by PSBs constitute 73 percent of all loans sanctioned through the portal[102] between October 2017 and September 2018.
- **psbloansin59minutes.com:**

  Most notable among these digital portals is psbloansin59minutes.com. It is focused on cash flow-based lending to MSME. Lending process in PSBs has typically been paper and branch-based and driven by collateral. For the MSME customers, this meant multiple visits to the bank branch. The customer would also have to visit multiple banks to get competitive rates and faster sanction, resulting in inconvenience and delay in getting loans.

  Lack of access to alternative data sources, like GST returns, income tax returns, etc. posed significant challenges in verifying customer submitted data on real time basis. Sourcing through intermediaries led to higher customer acquisition costs for banks. Paper based documentation coupled with incomplete document submission led to higher processing time for banks.

  psbloanin59minutes.com was launched to provide end-to-end in-principle approval in 59 minutes. It is an endeavour to leverage Financial Technology (FinTech) and formalisation ushered in through GST. It provides standardised customer interface across banks and leverages different alternative data sources like GSTN, Income Tax returns, credit bureau scores, etc. for credit appraisal. Linking of different data points is enabling banks to access correct data and reduce chances of data fraud. Availability of alternative data points electronically is leading to reduced paperwork and improved credit appraisal process resulting in lower TAT for customers.

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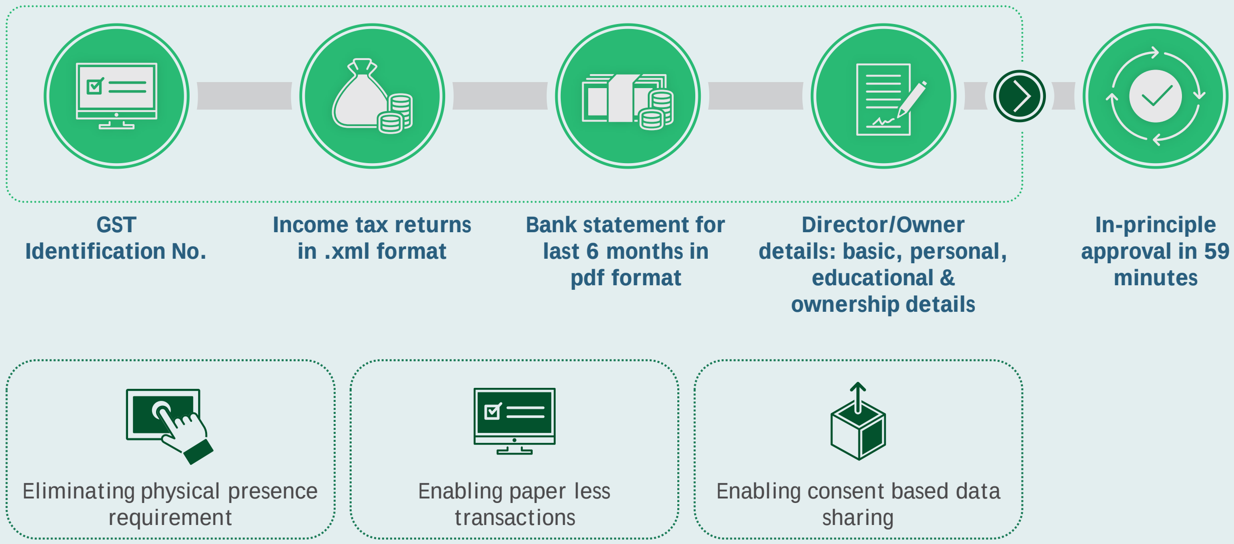
[99] Source: TransUnion CIBIL Report, 2018; Credit eligible customer estimate derived from pool of people in the age group of 20- 69 years and with annual income over ₹2.5 lakh
[100] Cost of processing of small ticket loans; Source: BCG analysis
[101] Source: **EASE** Reforms Index 2018
[102] Source: SIDBI

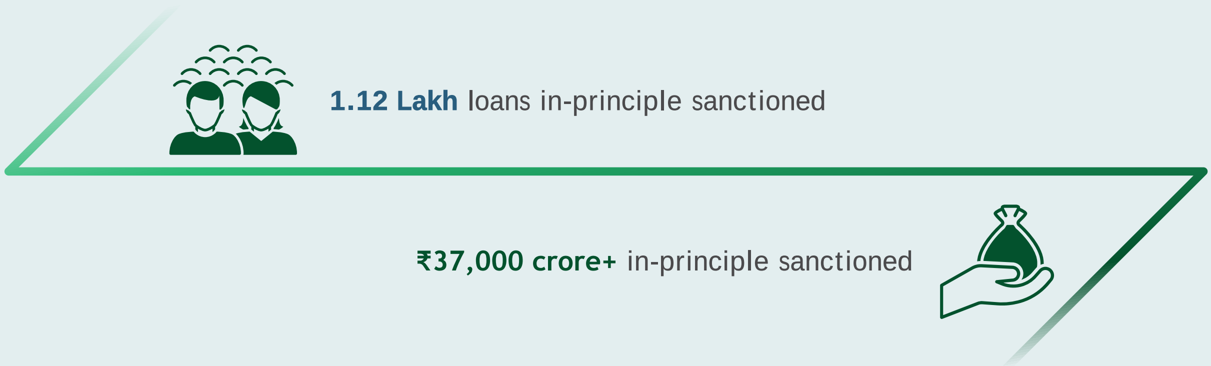
EXHIBIT 43 | MSME loans now sanctioned in 59 minutes by PSBs



Source: www.psbloansin59minutes.com

This portal brings seminal change in lending. Since its launch, PSBs have provided in-principle sanction to 1.12 lakh borrowers amounting to over ₹37,000 crore.

EXHIBIT 44 | In-principle sanctions on psbloansin59minutes.com till 25th December 2018



Source: **EASE** Reforms Index

Digitalisation of Back Office Operations

Digitalisation of back office operations has the potential to unlock significant value for banks by improving efficiency and reducing turnaround time. PSBs have already been taking active steps towards digitalising different parts of banking operations. Some of the key areas taken up by PSBs for digitalisation are:

- **Loan management system (LMS)** – 17 of the 21 PSBs have implemented LMS with features like case login, integration of CBS, alerts to employees, document storage and so on. This has led to the lowering of turnaround time by 25% percent for retail loan processing across PSBs, across different loan categories, in H1FY19.
- **Performance management system (PMS)** – PSBs are digitalising their PMS to make it more objective, provide transparency to employees and track their performance – 19 PSBs have implemented PMS, others are in process of implementing the same.

- **Customer grievance handling** – One of the major reasons for dissatisfaction among PSB customers has been the time taken for resolving grievances. PSBs are now implementing digitalised customer grievance portals. All 21 PSBs have implemented grievance handling system for handling customer grievances. This has led to a reduction of 18 percent in grievance redressal turnaround time from Q4FY18 to Q3FY19.
- **Other systems** – PSBs are also rolling out internal digital platforms to digitalise some of the other key processes. All PSBs, for e.g., are rolling out online OTS platform to track the progress versus the OTS plan and expedite approval in case of a new proposal. PSBs have also linked SWIFT platform with CBS for seamless transactions and reduction of operational risk.

WAY FORWARD

Digital banking is growing rapidly and is transforming the banking landscape in India. PSBs can tap into the huge opportunity to rapidly adopt digital and get ahead of the curve. Opportunity exists for PSBs to strengthen their digital platforms by providing more services and improving quality of service provided through digital platforms. This will help in reducing reliance on branch channel for financial and non-financial transactions. Given non-linear cost structure of digital channels, the operational cost of transactions can reduce substantially once digital channels gain sufficient scale.

PSBs should also continue to leverage digital in their back office operations. Digitalisation of the credit appraisal process will help PSBs in making their processes standardised, boosting credit off-take significantly. Strengthening of internal systems such as Loan Management System and Performance Management System can lead to further improvement in overall operational efficiency.

Big data analytics is changing the way banks interact with customers. Banks are able to offer customised products and services, cross-sell and upsell different products using big data analytics. Some PSBs have started using big data analytics in select areas such as lead generation, cross-sell, and retail loan underwriting. PSBs can accentuate the efforts and invest in building dedicated teams for mining and leveraging big data.

Reforms in SMART banking will help PSBs to adapt their offerings and operational mechanisms to changing customer needs. With their increased thrust on customer convenience and adoption of digital, PSBs are well placed to be the banks of the future.

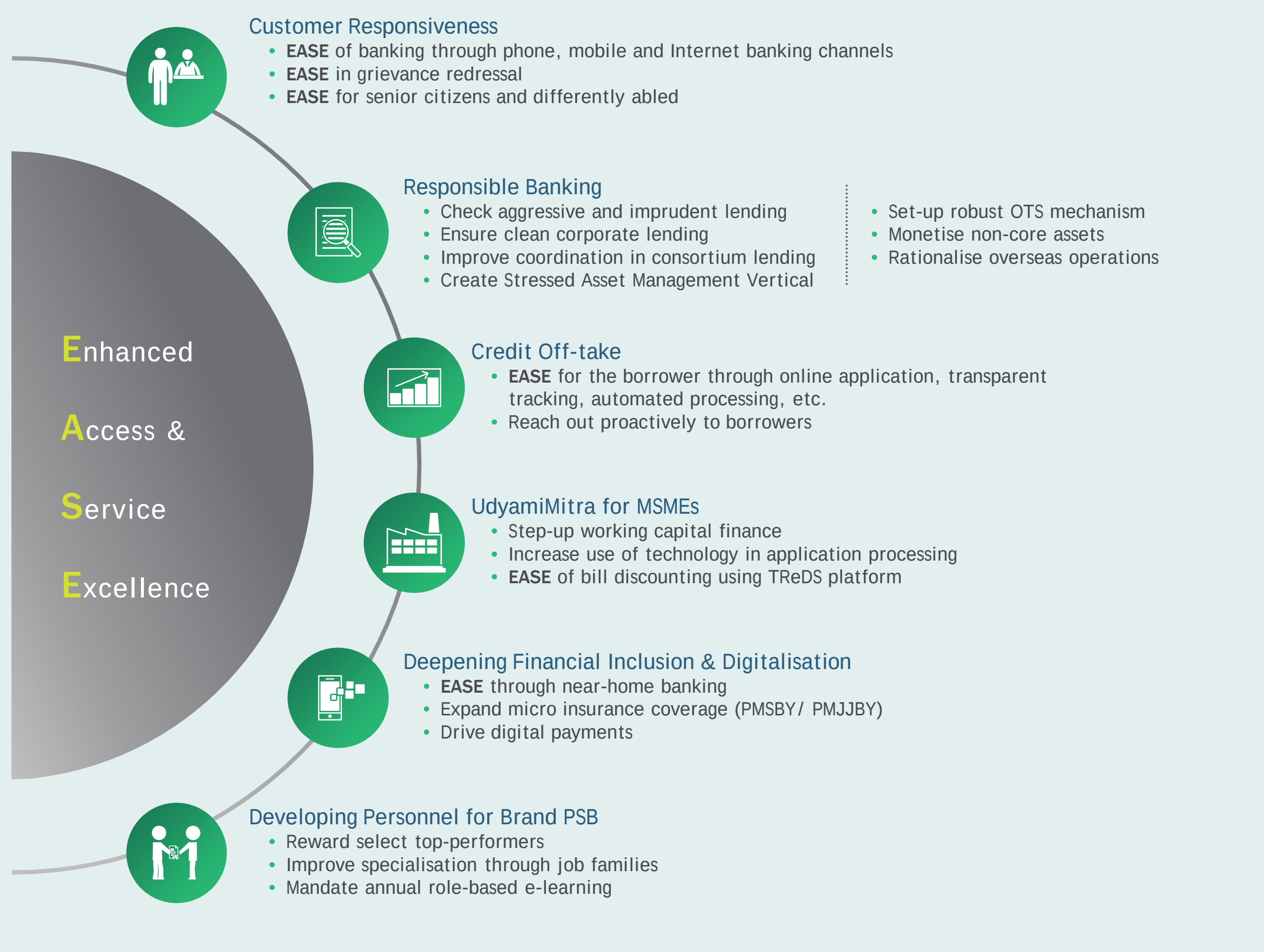
EASE REFORMS INDEX

BACKGROUND

The Reforms element of the 4R's strategy entails harmonised agenda of reforms across all 21 PSBs to promote **CLEAN & SMART** banking in PSBs.

The recommendations made in PSB Manthan, organised in November 2017, by around 250 WTDs and senior executives of PSBs formed the basis for a common PSB Reforms Agenda to drive **Enhanced Access and Service Excellence (EASE)** across six themes of transformation. These six themes are Customer Responsiveness, Responsible Banking, Credit Off-take, UdyamiMitra for MSMEs, Deepening Financial Inclusion and Digitalisation and Developing Personnel for Brand PSB. Focus areas under each theme have been outlined below.

EXHIBIT 45 | Six themes of PSB Reforms EASE Agenda



The recommendations comprised 30 Action Points and 60 Sub-Action Points[103] across the six themes. They encapsulate a synergistic approach to ensuring prudential and clean lending, better customer service, enhanced credit availability, focus on MSMEs and better governance. The Action Points not only set out immediate priorities but also initiatives that will lead to significant impact in the medium to long term.

PSB Reforms **EASE** Agenda aims to institutionalise **CLEAN & SMART** banking in PSBs through a Board-approved strategy and quarterly Board reviews. PSB Reforms EASE Agenda envisaged making management of the banks accountable for implementation of the agenda. Towards this objective, 20 percent weight in

[103] Comprehensive list of Action Points and Sub-Action Points are available in the document 'Responsive and Responsible PSBs - Banking Reforms Roadmap for a New India' by Department of Financial Services dated 24 January 2018

the annual performance appraisal of WTDs reporting to the bank's CEO has been earmarked for implementation of the Agenda as per evaluation done by the bank's Board.

Conceptualisation of EASE Reforms Index

The **EASE** Reforms Index[104] was conceptualised to provide the Board with a comprehensive, independent and benchmarked measurement of performance of PSBs. The Index provides an objective and comparative evaluation showing where each PSB stands vis-à-vis benchmarks and peers on the Reforms Agenda. Through periodic updates and by providing bank-specific scorecards and inter-bank comparisons, all PSBs are enabled to keep track of their progress on key reform priorities across time. The goal is to continue driving change by spurring healthy competition among PSBs and also by encouraging them to learn from each other.

ROBUST METHODOLOGY ADOPTED

A steering committee comprising select WTDs of PSBs, under the aegis of IBA, is monitoring the design and implementation of **EASE** Reforms Index following a rigorous process of intensive involvement of senior PSB executives. The **EASE** Reforms Index has been designed after extensive deliberations in 6 steering committee meetings and 12 nodal officer workshops.

The creation of the first version of **EASE** Reforms Index involved four major steps across design and implementation as outlined below.

EXHIBIT 46 | Robust methodology to create EASE Reforms Index

0 Identification of metrics
- 140 objective metrics
- Covers policy, infrastructure, process and outcomes

1 Design of scoring methodology
- Transparent scoring methodology
- Different weights reflecting relative priorities of reforms

2 Data collection and validation
- Diverse and independent data sources
- Rigorous validation checks

3 Computation of index
- Computed for December 2018 with baseline as March 2018
- Overall and theme wise computation

[104] **EASE** Reforms Index assesses PSBs on operational metrics in specific reform areas and does not present a view of their financial performance

Over 250 objective measurement metrics were defined to track and analyse progress across 30 APs of the Reforms Agenda. They cover all stages in the implementation of reforms such as formulation of policy, creation of infrastructure, definition of processes, adoption of processes and outcomes.

Of these 250 metrics, 140[105] have been incorporated in the first version of the **EASE** Reforms Index. In the future, based on evolving priorities, the Index will change to include new metrics as well as metrics that are currently tracked but not included. Three types of scoring methodologies, as mentioned below, were defined to track and compare performance of PSBs. Each metric was scored using relevant methodology.

- Linear scoring on absolute performance or against target
  - For e.g., percentage of operative current and savings accounts seeded with mobile number
- Linear scoring on relative performance vs. benchmark within PSBs
  - For e.g., bank's growth in transactions through digital channels as compared to growth of the fifth best PSB (the fifth best PSB corresponds to top quartile among 21 PSBs)
- Binary scoring on absolute performance
  - For e.g., whether PSB is registered on TReDS platform (full score if registered, 0 otherwise)

Each metric was assigned a weight reflecting its importance for PSBs. The overall score for PSBs (out of 100) was defined as the weighted average of scores across all metrics[106].

The data for the Index was collected from PSBs as well as from other reliable external sources and was validated rigorously. Every PSB appointed a senior-level manager as the Nodal Officer to support data collection, validation and subsequent tracking of progress internally across departments. The diverse set of data sources used are outlined below.

EXHIBIT 47 | Data from diverse sources used for EASE Reforms Index

Data internal to PSBs
Relevant data on bank operations, policies, infrastructure, etc.

Data tracked by Government departments
Statistics on various Government initiatives tracked by Mission Office, Department of Financial Services

Third party sources
Data captured by third parties such as Credit Information Companies, SIDBI, NPCI, etc.

Customer survey, branch visits
Survey to capture feedback from retail and MSME customers of all 21 PSBs on overall experience and branch infrastructure
- 11,000+ retail PSB customers interviewed and 2,200+ branches surveyed across the country
- 25% customers from rural, semi-urban areas
- 50% weight to responses from women and senior citizens
- 21,000+ MSME customers surveyed online across the country

Digital functionality benchmarking
In-depth functionality benchmarking of mobile and Internet banking channels
- 21 PSBs and 6 private sector banks assessed

[105] **Full list of 140 metrics published on IBA website - www.iba.org.in**
[106] In case some metrics were not applicable to a PSB, they were excluded in overall scores for the PSB. The resulting score, after exclusion, was scaled to 100

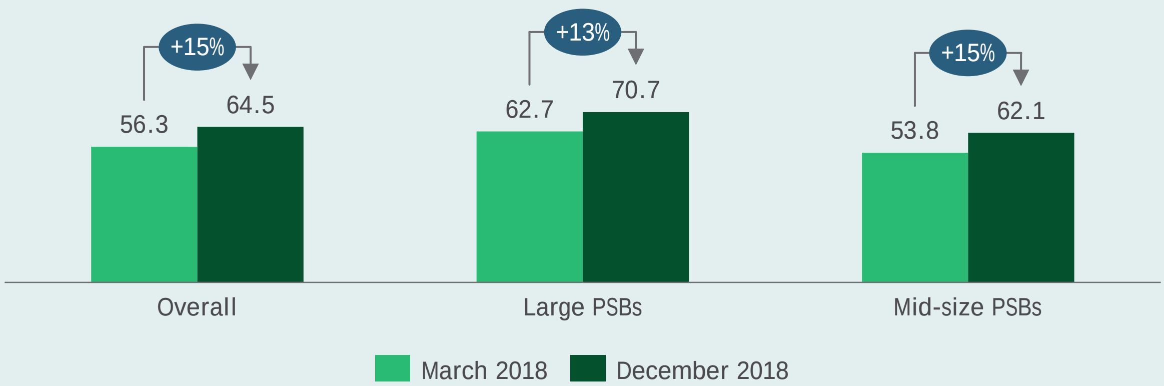
The first edition of the Index has been completed with data as on December 2018[107] with data as on March 2018 as the baseline to measure progress in the intervening period. Based on this **EASE** Reforms Index, in-depth reviews were held by DFS with WTDs and senior executives in PSBs to track progress on PSB Reforms **EASE** Agenda and identify best practices for sharing with other PSBs.

EASE REFORMS INDEX OUTCOMES

Overall progress

As on March 2018, the six larger PSBs[108] scored 8.9 points higher than the remaining 15 mid-size PSBs, indicating their stronger starting position. Both the cohorts have shown a significant 13-15 percent improvement in the Index from March to December 2018.

EXHIBIT 48 | Improvement in EASE Reforms Index

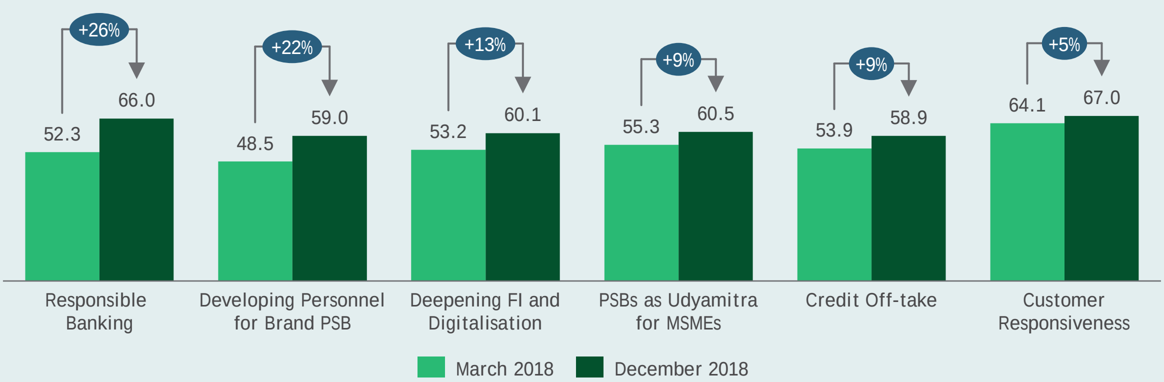


Note: Normalised scores, out of 100

Theme wise progress

PSBs have improved across all the themes of PSB Reforms **EASE** Agenda from March to December 2018.

EXHIBIT 49 | Improvement across themes of PSB Reforms EASE Agenda



Note: Normalised scores, out of 100

[107] Latest data as on December 2018 has been considered, according to the nature of each metric. For e.g., Q3FY19 data for a quarterly metric, H1FY19 data for a half-yearly metric, etc.
[108] Large PSBs include State Bank of India, Punjab National Bank, Bank of Baroda, Canara Bank, Union Bank of India, Bank of India. Mid-size PSBs include all other 15 PSBs

Responsible Banking theme saw the highest improvement of 26 percent from March 2018 to December 2018. This has resulted from the significant progress made in the areas of setting up and operationalisation of SAMV, strengthening of policies and processes to improve credit appraisal and monitoring and improved risk management practices.

Developing Personnel for Brand PSB theme witnessed a 22 percent improvement during this period. This has resulted from the initiatives taken by PSBs on introduction of the job families system, implementation of role-based e-learning programs and strengthening of performance management IT systems.

Deepening Financial Inclusion and Digitalisation theme saw notable improvement in financial inclusion through scale-up of coverage under PMJDY and social security schemes by PSBs. They have made significant progress in ensuring that every village has a banking outlet within 5 Km. radius. They are also making efforts to ensure that appointed Bank Mitras are active in their areas and offer near-home delivery of all 18 services that were hitherto offered from branches and which have been demonstrated as deliverable through Bank Mitras by any bank. In digitalisation, PSBs have shown a 80% YOY growth in digital payments, enabled through initiatives such as close to universal seeding of accounts with mobile (76%) and Aadhaar (85%) numbers.

Credit Off-take theme saw PSBs further improving comfort for borrowers, building upon improvement already registered in India's "Getting Credit" global rank from 29 in 2018 to 22 in 2019 under World Bank's Ease of Doing Business index, through measures such as rationalising decision making layers in loan appraisal, reducing turnaround time in retail loan segments and introducing digitalised tracking of application status.

UdyamiMitra for MSMEs theme saw PSBs improving experience for MSME customers by appointing relationship managers for top accounts in MSME branches and improving lending process through dedicated MSME vertical and loan processing centres. PSBs have also contributed significantly in driving MSME credit through MUDRA loans. In addition, all PSBs registered themselves on TReDS platform, which enables online bill discounting for MSME customers. They are showing early signs of adoption of the platform with volume of discounting on the platform growing from ₹148 crores in Q4FY18 to ₹527 crores in Q3Y19.

PSBs have also shown strong performance on metrics linked to Customer Responsiveness , as reflected in overall positive feedback from customers (8.3/10), increase in transactions through call centre, mobile and Internet banking channels (over 80% YOY growth in Q3FY19) and strengthening of grievance redressal framework (17% reduction in complaints in H1FY19). Improvement in this theme is highly dependent on investments in call centre, mobile banking and internet banking. PSBs have initiated action on improving the functionality, usability and customer convenience of using these channels and significant further progress is expected by the end of FY20.

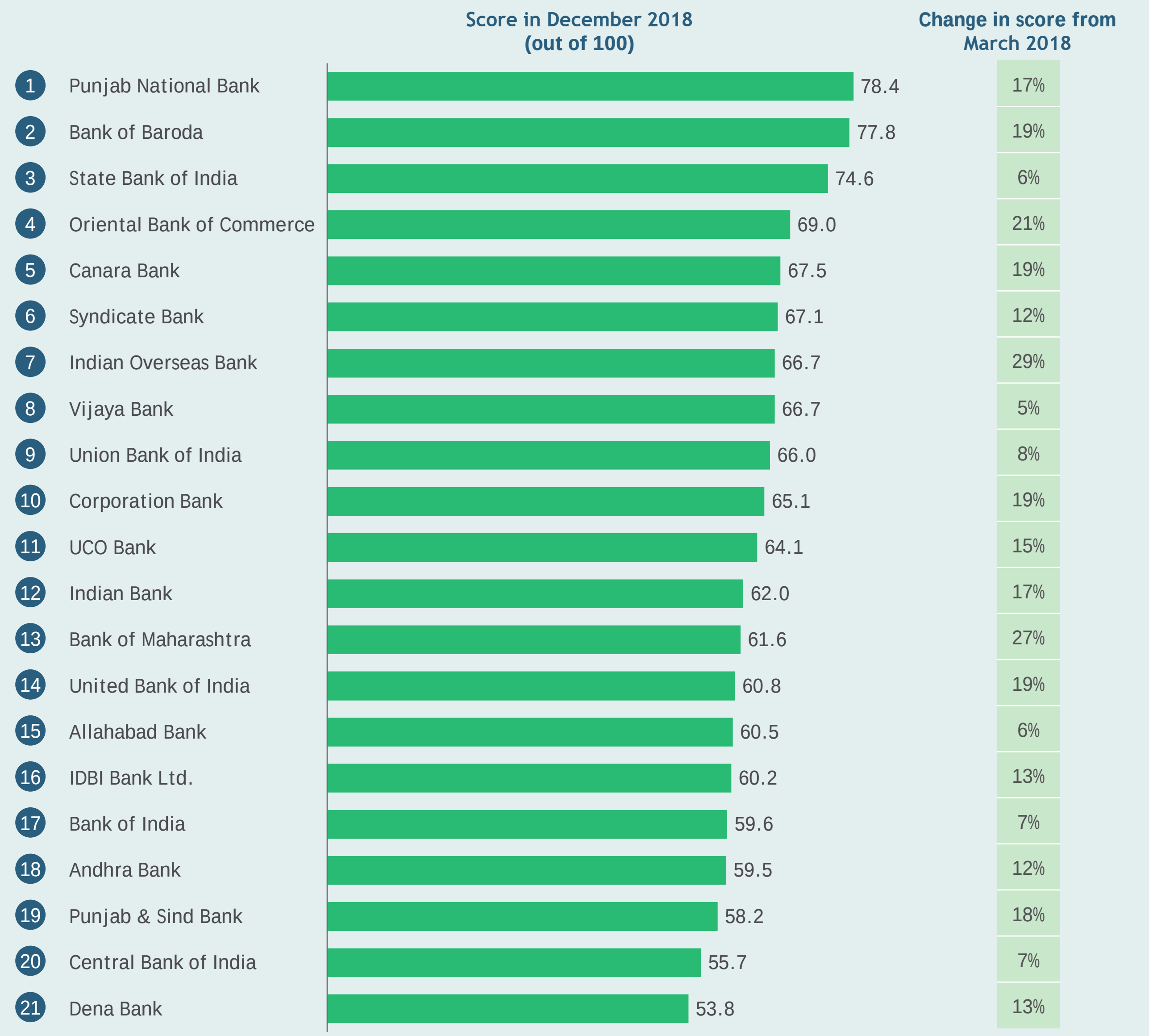
Performance of banks under Prompt and Corrective Action (PCA) framework

PSBs under PCA framework have taken concrete steps to improve their performance across the various dimensions of **EASE** Reforms Agenda and especially in the theme of Responsible Banking. Their overall score improved by 16 percent as compared to 13 percent for non-PCA banks, driven by narrowing of gap in scores on Responsible Banking theme. This reduction in gap on Responsible Banking theme has resulted from focussed approach adopted by PCA banks to deleverage their balance sheet, improve lending practices and expedite recovery. PCA banks reduced their credit RWAs to gross advances ratio by 3.7 percent in the H1FY19. This reduction in their overall credit risk not only lowers their capital requirement but also enables them to extend more credit in key sectors of growth. PCA banks have also made significant progress in the area of setting up and operationalisation of SAMV, strengthening of policies and processes to improve credit appraisal and monitoring and improvement in risk management practices. As a result of their focussed efforts, their NNPA ratio reduced from 11.5 percent in March 2018 to 10.3 percent in December 2018 and they effected record recovery of ₹33,405 crore in FY19 in Q3 as compared to ₹20,526 crore over the same period in the previous year.

Due to the improved financial and operational performance, three out of eleven banks are out of the ambit of PCA restrictions effective February 2019.[109]

EASE Reforms Index and ranking of PSBs in December 2018

EXHIBIT 50 | EASE Reforms Index scores and ranking



Note: Normalised scores, out of 100; For Dena Bank, it was not possible to observe progress on some Action Points due to specific PCA restrictions on the bank

Detailed scorecards that provide scores of respective banks along with benchmarking at the metric level have been shared individually with all PSBs. It provides granular insights that PSBs are leveraging for review of their performance on each metric, identifying next steps and planning the next milestones in the reforms journey.

[109] Source: RBI

Areas of Strong Performance in PSBs based on EASE Reforms Index

PSBs have shown significant improvement and achievement in many areas across themes. Previous chapters of the report have highlighted the drivers, actions and outcomes for these areas. The summary of the areas of strong performance and two top scoring PSBs in each theme is as follows.

EXHIBIT 51 | Key areas of strong performance

Theme	Areas of strong performance	Top 2 PSBs in the theme
Customer responsiveness	• Customers mostly satisfied with overall experience - 8.3/10[1] average score across customer segments • 87% customers of large PSBs can speak in regional language with call centres • Over 80% YoY growth in transactions through call centre, mobile and Internet banking channels in Q3FY19 • 17% reduction in complaints from top 5 issues in H1FY19	• Punjab National Bank • State Bank of India
Responsible Banking	• SAMV operational in all 21 PSBs and manages 89% of NPA and SMA 1&2 cases[2], ₹9,456 crore recovered through SAMV in Q3FY19[3] • Codified lending policies and staff accountability in large credit appraisals • Appraisal done using 5-6 independent data sources • 100% segregation of pre, post-sanction roles (>₹50 crore loans) in all 21 PSBs • 17 PSBs developed digital platform for managing OTS, others in process • 39 overseas branches/subsidiaries offices under various stages of rationalisation; 1.56 times the joint plan PSBs prepared in December 2017	• Punjab National Bank • Bank of Baroda
Credit off-take	• 25% reduction in TAT for retail loan processing in six months[4] • 17 PSBs have a digital loan management system for processing personal segment loan applications • All 21 PSBs have rationalised decision-making layers to maximum of 3 in the appraisal of personal segment loans	• Punjab National Bank • Canara Bank
UdyamiMitra for MSME	• All 21 PSBs registered on TReDS; 11% of all bill discounting advances achieved through TReDS in Q3FY19 • 1.12+ lakh in-principle approvals through psbloansin59minutes.com[5] • Relationship Managers appointed in 91% of identified top MSME accounts[6] • 29% of MSME loans disbursed were to underserved segments in 9MFY19[7]	• Union Bank of India • Oriental Bank of Commerce
Deepening Financial Inclusion and Digitalisation	• 80% YoY growth in digital payments[8] • 97% of Bank Mitras are active across India[9] • Aadhaar and mobile number seeding done in 83 crore and 74 crore operative CASA accounts respectively • Over 100% achievement of targets for PMJDY under Extended Gram Swaraj Abhiyan	• Indian Overseas Bank • Punjab National Bank
Developing personnel for Brand PSB	• 19 PSBs have digital performance management systems, others in process of development • 16 PSBs initiated process to implement specialisation through the job families system • 14 PSBs rolled out role-based e-learning; 13 PSBs have already made e-learning mandatory by including it in appraisal/ promotion criteria	• State Bank of India • Bank of Baroda

Note: Data as of December 2018 unless specified 1. Customer satisfaction based on survey conducted by IMRB in Q2FY19 2. Data of NPA cases with exposure above ₹50 crore for large PSBs and more than ₹25 crore for mid-size PSBs 3. Over and above resolution through proceedings under IBC 4. In H1FY19; includes housing, vehicle, education and personal loans 5. Data on psbloansin59mins.com is from 25th September to 25th December 2018 6. Top MSME accounts refers to 20 largest accounts in every MSME branch 7. Underserved segments are women, SC/ST and borrowers in districts under Aspirational Districts Programme 8. Digital payments include card transactions, NEFT, RTGS and UPI; growth from November 2017 to November 2018 9. Active as per NPCI definition anytime during past 3 months

PSBs with best practices in select areas

The **EASE** Reforms Index has helped identify the best practices that PSBs can leverage from each other as they plan the next milestones in their reforms journey. IBA has already initiated workshops where PSBs with best practices share their experience with others. Some of the key areas for best practice sharing are given below.

EXHIBIT 52 | PSBs with best practices in select areas

PSB	Area selected for sharing best practice
State Bank of India	**Mobile app and Internet banking** Best PSB in mobile and Internet banking basis functionality benchmarking covering availability of features and ease of use
Oriental Bank of Commerce	**Grievance redressal system** Comprehensive system with features including service-wise sorting of complaints on receipt, auto-escalation, detailed status tracking for customer, etc.
Punjab National Bank	**Stressed Asset Management Vertical** Manages all NPA and SMA 1&2 cases with responsibilities demarcated basis loan size, war rooms for intensive tracking of NPA, mobile app for recovery officials
State Bank of India	**In-house techno-economic valuation capability** Fully functional in-house technical cell with over 20 experts to prepare/ validate techno-economic valuation in consortium lending
Bank of Baroda	**Digital Performance Management System (PMS)** PMS with all features including advanced features such as data analytics

Areas for further improvement

EASE Reforms Index offers insight into areas where PSBs need to sustain momentum to realise further gains from these reforms. Many such areas involve strengthening IT systems, which require investments and time-bound implementation. Improvement areas also include reform initiatives where initial steps have been taken and adoption needs to be driven further. PSBs have committed to roadmaps for improvement across these initiatives and progress against the same is expected to be reviewed by their Boards' periodically. In the next 12 months, PSBs are expected to achieve significant progress in key areas. These areas have also carry relatively large weights in **EASE** Reforms Index.

In the theme of Customer Responsiveness, promoting 'Banking from home & mobile' through mobile banking, call centre and Internet banking should be the key priority for PSBs. This would enable them to improve efficiency and reduce operating costs. While PSBs offer an average of 28[110] key banking services through Internet banking and 19[110] through mobile banking, they offer only 11[110] services through call centres against an identified list of 45 services. Increasing the number of services would entail investment in IT systems. PSBs have already undertaken steps to augment the number of services across platforms and are expected to achieve desired targets by FY20. Going forward, PSBs also need to improve quality and ease of use of these features, improve availability of regional language interfaces in every state where they have more than 100 branches and take proactive steps to drive adoption of these platforms.

Branches of PSBs will continue to be a dominant channel for customers. While a number of improvements are required in branch-based customer service, most critical will be ensuring availability of self-service machines such as ATMs, cash-deposit machines and pass-book printers. This will increase customer convenience and also reduce transaction intensity at counters enabling the bank staff to engage with customers to develop relationship and offer financial advice.

PSBs have rolled out reforms with regard to all the Action Points in the theme of Responsible Banking, which is a dominant theme in PSB Reforms **EASE** Agenda. They have made early-stage progress in a few Action Points such as adoption of enhanced policies and processes for credit appraisal and monitoring, consortium based lending and risk management. Through IBA, PSBs have created a standard SOP to improve coordination in consortium loans and have identified common list of agencies for specialised monitoring to effectively monitor project loans above ₹250 crore. PSBs need to accelerate implementation of these reforms –viz., accelerate appointment of specialised monitoring agencies in all project loans above ₹250 crore exposure, operationalise Standard Operating Procedure defined by IBA with respect to consortium loans, monetise non-core assets and implement system-driven tracking of one-time settlements (OTS).

Risk management needs to be improved in terms of reducing deviation from risk based pricing, timely completion of checking of NPA cases above ₹50 crore from the angle of wilful default and fraud. Cyber-security risk is a key emerging risk with increasing digitalisation. PSBs need to keep pace with technological developments in this area and need to leverage advanced analytics for transaction monitoring and alerts.

Reforms in the themes of Credit off-take and UdyamiMitra for MSMEs are aimed at increasing efficiency and effectiveness in customer out-reach, loan proposal processing and digital lending. In these areas, PSBs need to substantially increase the number of employees dedicated for marketing and relationship management, improve IT systems for straight-through processing of loans, ensure implementation of key features of loan management systems such as integration with core banking system and ensure speedy decisions to reduce pendency of loan applications.

PSBs play a vital role in providing access to banking services at the last mile and driving financial inclusion. To enhance last-mile access to banking services (near-home banking), PSBs need to increase proportion of active Bank Mitras from the current 97 percent to nearly 100 percent, increase number of services offered through Bank Mitras to achieve branch equivalence and continue driving digital payments through RuPay cards, POS and AePS.

With respect to HR management practices, **EASE** Reforms Index indicates that performance management systems need further automation, objectivity in evaluation and enhanced frameworks ensuring clear identification of top-performers. Most PSBs have recently adopted implementation of the job families system through a Board approved policy. They are also investing in implementing digital PMS to improve

[110] Source: RBI

process efficiency and bring in greater objectivity. These initiatives are expected to show visible benefits in the next 12-24 months.

The number of initiatives under progress in each PSB concern different departments and are at different levels of progress. **EASE** Reforms Index provides a robust framework to track the progress of reforms not only across the PSBs but also within the PSBs. The methodology of **EASE** Reforms Index is shared transparently with PSBs. They can leverage the same and can create customised index for tracking reforms based on bank's priorities, set up centralised teams to comprehensively drive **EASE** Reforms Agenda and link performance metrics of concerned employees to achievement on metrics covered in **EASE** Reforms Index. With this, the **EASE** Reforms will get ingrained further and will help PSBs to improve performance across multiple dimensions.

WAY FORWARD

WAY FORWARD

Significant progress has been made across each of the four elements of the 4R's strategy, viz. Recognition, Resolution and recovery, Recapitalisation and Reforms. The way forward will entail sustaining the current reforms momentum across all the elements of the 4R's strategy and PSB Reforms **EASE** Agenda, review of the Agenda to include relevant new Action Points or metrics and institutionalising the **EASE** Reforms Index.

Continue progress on current reform initiatives

A number of existing initiatives pertaining to PSB Reforms **EASE** Agenda involve upfront investment, transforming operating model elements such as processes, organisation structure and IT architecture and require rigorous implementation. Outcomes of these initiatives will improve over time. PSBs need to stay the course on reforms roadmap to achieve next milestones and the desired results.

Institutionalizing reforms leveraging EASE Reforms Index

EASE framework and objective system developed to track the reforms will act as a foundation for ensuring much needed continuity of transformation in public sector banks. Banking space is changing rapidly due to changing technology and evolving customer requirements. Public sector banks will need to adopt more and more advanced reform measures to stay competitive. These advanced measures should be progressively built into the **EASE** framework over time.

EASE Reforms Index provides a robust mechanism for institutionalisation of reforms process in PSBs. The Index methodology is transparent and therefore can be customised for internal tracking by each bank based on its strategic priorities. PSBs can set up centralised **EASE** team to drive and track progress on reforms agenda. KPIs of the EASE team, as well as other units within the bank, can be linked to metrics of **EASE** Reforms Index. The process of coordination across various departments, which is currently managed by respective Nodal Officers, can be strengthened with automated data-flows, customised dashboards and an internal steering committee.

Initiating next-generation reforms

PSB Reforms **EASE** agenda as well as strategic objectives of individual banks will evolve over time to include next-generation reforms. The current focus on NPA recognition and recovery will shift towards deploying early warning systems to identify and prevent future NPAs and strengthening NPA management systems and processes. PSBs needs to actively leverage markets for capital raising to fuel future credit growth.

The banking industry is facing disruptive impact of trends in digital and big data analytics. Globally, banks are leveraging rapid developments in digital technology to bring innovations in customer service, business decision making and back-office processes. PSBs could leverage these trends to not only replicate the industry best practices but also introduce innovative solutions relevant to their customer base.

Going forward, PSBs also needs to strengthen their HR policies and systems to increase level of specialisation and continue strengthening governance framework to make boards more effective.

From NPA recognition to advanced Early Warning Systems – including for smaller ticket loans

The recognition of hidden NPAs is almost complete and PSBs have established practices for transparent asset classification that need to be sustained. The focus of the recognition process could now shift to early detection of emerging stress, much before the default occurs. PSBs can leverage the wealth of data available internally, as well as from external sources, for predictive analytics and event triggers that are precursors to defaults.

Strengthening NPA management and recovery process - including smaller ticket loans

All PSBs have operationalised SAMV and need to strengthen the NPA recovery processes basis current experience. Building in-house expertise, strengthening recovery processes based on industry best practices and rigorous monitoring will be key. PSBs will also need to enhance coordination among consortium members, for which an SOP is now created. The SAMV in many PSBs is currently pursuing recovery from large NPA cases. By leveraging the experience, PSBs can also set up dedicated verticals or teams to pursue focused recovery in other loan segments.

Raising further capital

To accelerate credit growth, PSBs need to continue strengthening the capital base, especially by raising capital from equity markets and by unlocking capital from existing assets. Monetisation of non-core assets is underway and needs be expedited by leveraging external professional expertise and through rigorous program management.

Advancing digital capabilities to keep up with trends

Digital trends are accelerating. Banks have to continually invest to keep pace. Newer initiatives have to be undertaken each year within the umbrella of digital and digitisation. More and more back office processes have to be made paperless including complex processes leveraging Artificial Intelligence (AI). Customer interface has to become more and more sophisticated with most customer journeys becoming end to end digitized and paperless. Advanced chat bots can provide customers with first level of service with no human intervention. Within next 5 years, it is expected that banks will be compelled to personalize their services and propositions to each customer using advanced data analytics and upgrading their digital marketing technology stack. Banks would need to upgrade data management capabilities and embrace big data framework.

Organization and HR

Need for lateral hiring and integration is high and will only increase over time and banking systems and process become more complex. Specialisation is increasing and current framework for recruitment will need to be modified to keep pace. Banks have to embrace higher levels of specialisation, higher sophistication in performance measurement leveraging advanced transfer pricing techniques and adoption of agile ways of organising multi-disciplinary teams in 'change the bank' initiatives.

Governance and leadership development

Strong leadership is critical for transformation journeys of Public Sector Banks. Over last few years, several steps have been taken to enhance quality of selection and length of terms of senior leadership. These initiatives have to be further extended. Highest quality talent from diverse streams have to be attracted to play leadership roles at various levels in public sector banks and retained for sufficiently long periods. Public Sector Banks need to further fine tune corporate governance framework to make the boards and associated governance practices more effective.

PSB Reforms EASE Agenda will continue to catalyse PSB performance

Boards and leadership of the PSBs have shown strong commitment to PSB Reforms **EASE** Agenda. This Agenda has created, for the first time, a platform across all 21 PSBs to set common goals, create common vocabulary, learn from peers and gain specific insights in progress of reforms based on objective assessment. With sustained drive and improvements, it will catalyse PSB performance that is vital to the overall economic development of the country.

NOTE TO THE READER

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ACKNOWLEDGEMENTS

The authors would like to thank the project Steering Committee and IBA for their continued guidance throughout the engagement on development and implementation of the **EASE** Reforms Index. The authors would also like to thank the Department of Financial Services, Ministry of Finance for their valuable guidance, insights and support. The authors would like to extend their gratitude to the Managing Directors and Executive Directors of all 21 PSBs for their support in creating the first **EASE** Reforms Index.

The authors would like to acknowledge the contribution of research partners, Forrester Research Inc. and Kantar IMRB for conducting surveys and benchmarking. The authors are also grateful to TransUnion CIBIL, NPCI, NIC, SIDBI and Ministry of Electronics and Information Technology for sharing data required to prepare the **EASE** Reforms Index and the report. A special note of thanks for the extensive data collection efforts made by the Nodal Officers of all 21 PSBs. The **EASE** Reforms Index and this report would not have been possible without their invaluable support.

A special thanks to the BCG project team comprising Mohit Gorisariya, Ankita Banerjee, Deepak Sharma, Prashansa Choudhary and Ferril Samal for their contribution to design and implementation of **EASE** Reforms Index and for development of this report; Jamshed Daruwalla, Rahul Surve, Pradeep Hire, Saroj Singh, Dillibabu Muthu and Abbasali Asamdi towards the design and production of this report; Aarti Gupta for editorial support on the report.

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Enhanced
Access &
Service
Excellence
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Insolvency and
Bankruptcy Code
Responsible Banking
Credit Off-take
UdyamiMitra for MSMEs
Deepening Financial Inclusion
& Digitalisation
Team PSB
Developing Personnel for Brand PSB