Viksit banking – A roadmap for the Indian banking sector for 2047

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Foreword

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It gives me immense pleasure to launch the second edition of PwC's flagship thought leadership with Indian Banking Association (IBA), **Viksit banking – A roadmap for Indian banking sector for 2047**, in this coveted forum. We had initiated this association with IBA last year, and our 2024 report '**Shifting Horizons – Banking readiness for 2030**' had laid out the foundational focus areas for banks to re-invent, grow and contribute purposefully towards the country's USD 7 trillion economy goal by 2030.

Taking this journey ahead, in this year's report, we have discussed around growth, efficiency and governance for banks which can enable them to contribute towards shaping the growth of the agriculture, manufacturing and services sector and help the country achieve the target of becoming a USD 30 trillion economy in 2047.[1]

Some of the developments in the core fundamentals of the banking and financial services sector which impacted the country's economy in 2024 were:

- scheduled commercial bank's consolidated balance sheet expansion by 15.5 % (as per the Reserve Bank of India's (RBI) Report on Trend and Progress of Banking in India 2023-24)[2]
- India's micro, small, and medium enterprises (MSME) loan portfolio witnessed a 17.8% growth, reaching INR 64.1 trillion by March 2024[3]
- digital payments have grown by 45%+ in FY 24 and will continue this momentum[4]
- India is now home to 26 unicorns with FinTech's driving the innovation and financial inclusion shift in the country[5]
- the value creation by global capability centres (GCCs) is increasing exponentially with 1700+ GCCs across different sectors.[6]

[1] https://www.thehindu.com/opinion/lead/powering-up-to-get-to-the-30-trillion-economy-point/article68493609.ec

[2] https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/0RTP261220247FFF1F49DFC04C508F300904A90C7439.PDF

[3] https://www.business-standard.com/industry/sme/msme-loan-portfolio-expands-17-8-to-rs-64-1-trillion-in-fy24-report-124090501079_1.html

[4] https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1988370#:~:text=The%20Minister%20further%20stated%20that,2023

[5] https://www.business-standard.com/finance/personal-finance/india-home-to-26-fintech-unicorns-with-a-combined-market-value-of-90-bn-124090300565_1.html

[6] https://economictimes.indiatimes.com/tech/information-tech/indias-gccs-soar-to-1700-set-to-hit-2200-by-2029-new-nasscom-president/articleshow/116480887.cms?from=mdr

The government has launched various initiatives aimed at improving the quality of life and financial access which have grown in reach and impact (e.g.PM Kisan, PM Mudra Yojana, Ayushman Bharat, Ujjwala Scheme, Senior Citizen Savings Scheme, Sukanya Samriddhi Yojana, PM Awas Yojana, etc.) and are pivotal to align the country's growth with the long term economic goals. In the light of these developments our team interacted with leaders of leading industry players to discuss the key aspects of transformation of the banking sector and the challenges in their transformation journey. This report highlights the findings of the survey to understand how the banking industry is shaping the growth impetus in other sectors.

I hope that you will find this report to be an interesting read and gain relevant actionable insights for your organisation.

> **Banking sector will expand and thrive, thereby becoming the catalyst for the 2047 Viksit Bharat charter.**

> **Cross-collaboration with different economy sectors, accelerated by banking will enable holistic development.**

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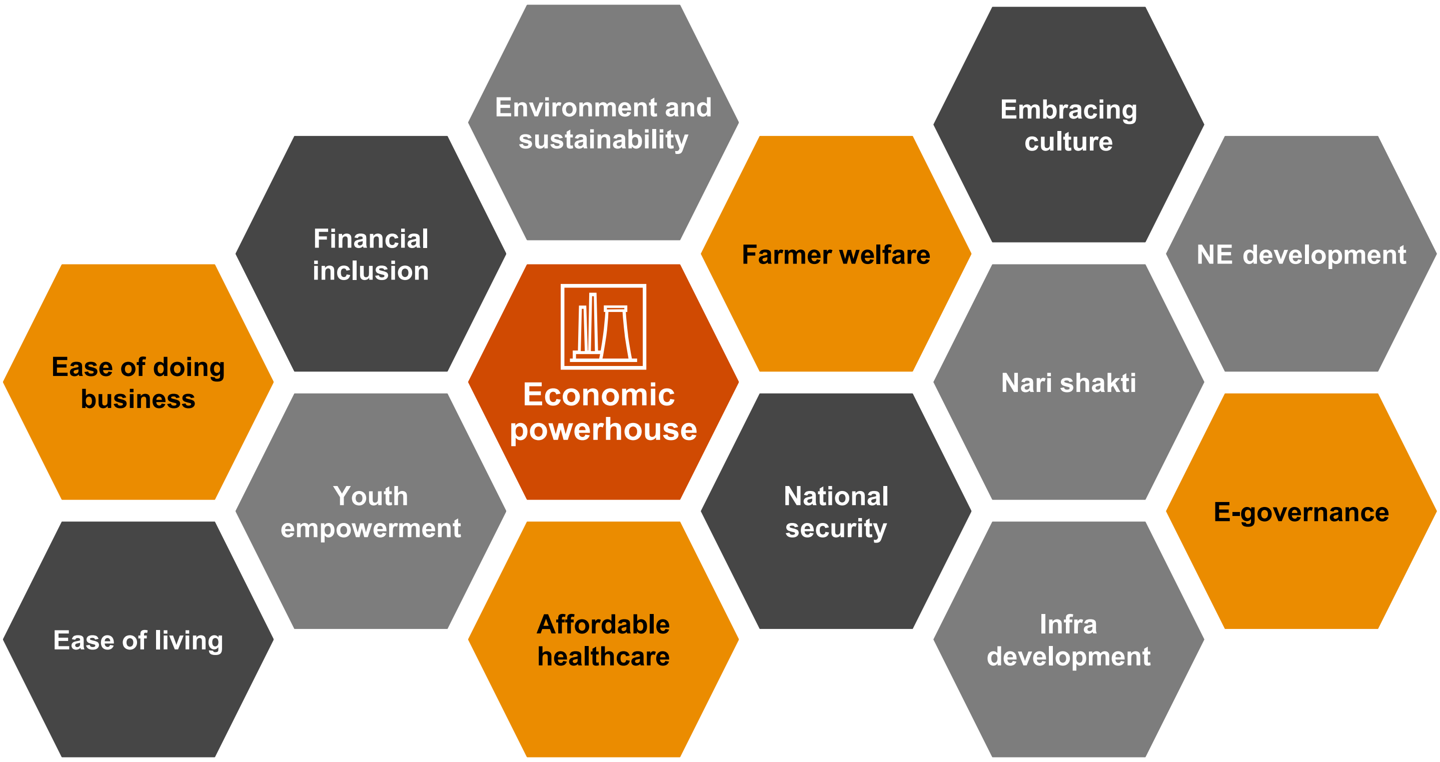
1. Introduction

India will complete 100 years of its independence in 2047. The country aims to become a developed nation or 'Viksit Bharat' by 2047 with a goal to achieve economic progress and empower its citizens.

In our analysis, we have identified few key focus areas for the banking sector which can enable the sector to contribute significantly to the 'Viksit Bharat' vision of the government based on their vision document. This roadmap envisages an economy with an unbiased access to education, a well-equipped and accessible healthcare system, affordable housing, improved ease of business, robust social welfare programmes and reduced inequalities which aims to facilitate sustainable development and inclusivity in all domains and promote successful governance.

Figure 1: Focus areas for India's 2047 vision of 'Viksit Bharat'



Source: https://viksitbharatsankalp.gov.in, PwC analysis

[7] https://viksitbharatsankalp.gov.in/

Figure 2: Key themes which are contributing towards India ‘s Viksit Bharat vision

Economy powerhouse
- Make in India
- Production-linked incentive scheme

Financial inclusion
- Pradhan Mantri Jan Dhan Yojana (PMJDY)
- Stand-Up India Scheme
- PM SVANidhi
- PM Vishwakarma Scheme

Ease of doing business
- Goods and Services Tax (GST) - One Nation One Tax
- ASPIRE
- Credit Guarantee Scheme for Startups
- Multiplier Grants Scheme

Youth empowerment
- Pradhan Mantri Yuva Yojana (PMYY)

Ease of living
- PM Awas Yojana
- Swachh Bharat Abhiyan
- AMRUT Scheme
- UDAN Scheme

Affordable healthcare
- Ayushman Bharat Yojana
- Pradhan Mantri Jan Aushadhi Yojana (PMJAY)

National security
- Agnipath Scheme
- Operation Ganga

Farmer welfare
- Pradhan Mantri Fasal Bima Yojana (PMFBY)
- PM - Kisan
- E-NAM

Nari shakti
- Ujjwala Yojana
- Beti Bachao Beti Padhao (BBBP Scheme)

Infra development
- PM Gati Shakti
- National Logistics Policy

E-governance
- Government e-Marketplace (GeM)
- UMANG App

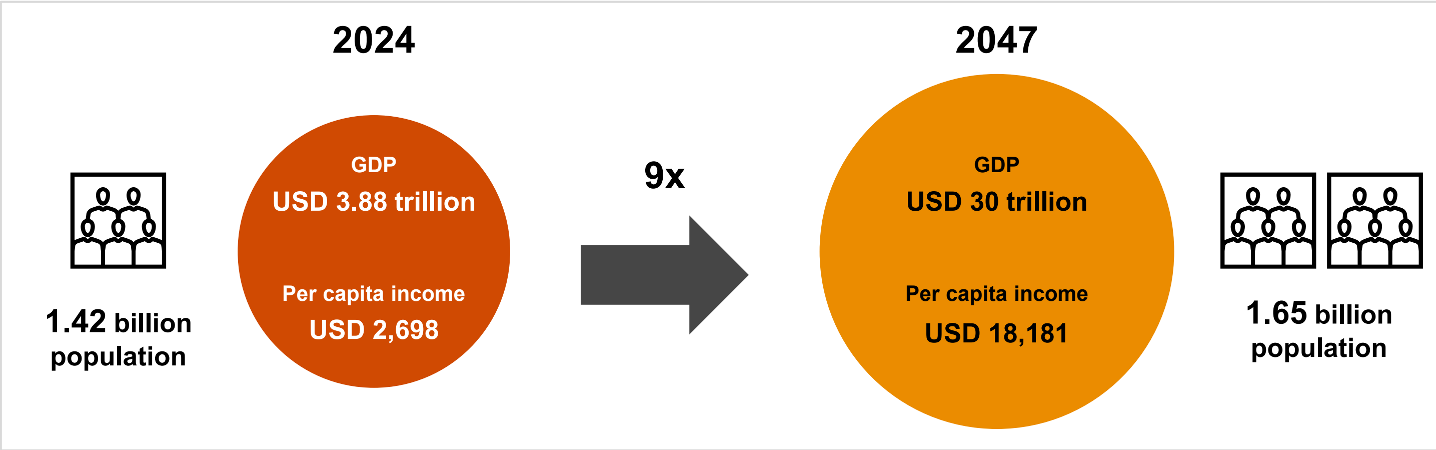
NE development
- Pradhan Mantri Development Initiative for North East (PM-DevINE)

Embracing culture
- National Mission on Libraries

Environment and sustainability
- PM - Pranam
- GOBARdhan Scheme
- Museum Grant Scheme

Source: https://viksitbharatsankalp.gov.in, PwC analysis

Figure 3: Growth of GDP and per capita income: 2024 and 2047



Source: https://www.imf.org/external/datamapper/profile/IND and https://www.pwc.in/assets/pdfs/the-role-of-technology-in-shaping-the-financial-services-sector-for-a-viksit-bharat.pdf; PwC analysis

The role of the banking sector

To achieve the vision of becoming 'Viksit Bharat' by 2047, India must focus on strengthening the capabilities of three key sectors – agriculture, manufacturing and the service sector[8] – which collectively have a significant contribution in the country's economy.

Agriculture

A major contributor to India's GDP, the agricultural sector is the primary source of employment for a significant portion of the population. As a majority of the country's agricultural sector is small-holder-based, it is imperative to develop a strategy which aims to increase the farmers' per capita income and bring them at par with those in the non-agricultural sector.

In recent years, the Indian agricultural sector has already witnessed significant transformation driven by technological advancements, government policies and market dynamics. One of the initiatives undertaken by the Government is **minimum support price (MSP**). As of Dec 2024, during the upcoming Kharif season a sum of INR 45,000 crores was sanctioned for the release of 2836.5 lakh metric tonnes under **Price Support Scheme** (PSS); secondly, to reduce the cost of production farmers can now procure fertilisers at cheaper rates, for example, a bag of urea earlier costing INR 2,366 will now be made available at INR 266.[9]

To accelerate the pace of agri-economy expansion, farmers can diversify into a wide array of activities apart from conventional crop cultivation to horticulture, livestock, fisheries, forestry, food processing and allied activities. The Government can facilitate market access with liberalised trade policies to promote exports, Farmers' Producers' Organisations (FPOs), contract farming, futures market, digital commerce networks, supply chain infrastructure, Agri Stack and **unified lending interface** (ULI), thereby enabling the diversification process. With these developments, total factor productivity (TFP)[10] of the agriculture sector could rise, which could further accelerate the growth of the agriculture sector.

Digital Agriculture Mission will create digital identities for 11 crore farmers by 2026-27 with the help of **Agri Stack**. Similarly, the **Agriculture Infrastructure Fund** (AIF), a medium to long-term debt financing facility for investment, has given the green signal for INR 48,500 crores for 76,400 projects.[11] Similarly, the **electronic-National Agriculture Market** (e-NAM) platform has 1,389 mandis in 27 states and 4 union territories, with 1.77 crore farmers and 2.53 lakh traders who actively trade, crossing a new milestone of INR 3.19 lakh crore in trade.[12]

The Indian banking sector plays an important role in promoting financial inclusion in the agricultural sector by fostering integration of the agricultural community with the mainstream financial system by providing easier credit with flexible loan options, direct benefit transfer (DBT) into beneficiary accounts without pilferage and a plethora of digital banking products which offer customised solutions to farmers based on their farm data. In its year of inception, DBT covered 28 schemes and has broadened its coverage to include 314 schemes since then. The subsidies dispersed by DBT witnessed a steep rise in 2022-23 and reached INR 7 trillion.[13]

[8] https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2045606, PwC analysis

[9] https://pib.gov.in/PressReleasePage.aspx?PRID=2056695

[10] https://icrier.org/pdf/New_Deal_for_Agriculture_for_Viksit_Bharat.pdf

[11] https://pib.gov.in/PressReleasePage.aspx?PRID=2056695

[12] https://pib.gov.in/FactsheetDetails.aspx?Id=149061&reg=3&lang=1

[13] https://dbtbharat.gov.in/

Manufacturing

With abundant sources of raw materials, affordable labour, manufacturing expertise and entrepreneurial spirit, The manufacturing sector stands at the second most important position in the Indian economy after the services sector. Over the last decade, strategic government programmes and schemes have laid the foundation for transforming India into a **global manufacturing hub**. Initiatives such as **Production Linked Incentivisation (PLI) scheme**, Goods and Service Tax (GST), **Startup India, Stand-Up India** and the **Make in India campaign** have been pivotal in attracting foreign investments leading to a surge in international trade and boosting production, exports and employment specifically in eight critical industries – coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity.

Under the PLI scheme, INR 1.97 lakh crores was sanctioned to 14 key sectors to improve exports and manufacturing capabilities[14]. The Startup scheme has helped India in becoming the third largest startup hub with more than 1,57,066 registered startups.[15] INR 40,600 crores was allocated to the Stand-up scheme empowering more than 1.8 lakh women entrepreneurs.[16] With an outlay of 76,000 crores, the **Semiconductor Mission** aims to promote indigenous industries to help them tap the USD 109 billion semiconductor market in 2030.[17]

With the rise of **Industry 4.0**, numerous technological advancements including artificial intelligence (AI), robotics, the internet of things (IoT) and big data analytics are becoming the driving force behind industrial expansion. Furthermore, the country's continuous endeavours to upscale the workforce, introduce reforms in labour laws, mitigate supply chain bottlenecks, ensure easy access to markets and finance, engage in promoting research and development (R&D) investment, establish industrial parks, corridors and conventions can boost the industrial growth.

MSMEs contributed to 45% of India's exports in FY23-24,[18] and their growth will see considerable improvement with further reduction in the compliance complexities and better ease of conducting business. The Open Network for Digital Commerce (ONDC) platform aims to digitise the data related to MSMEs which, in turn, results in financial institutions granting credit accessibility to this sector. A recent report by PwC highlighted the role of financial services in driving growth in the manufacturing sector and identifies the focus areas which the Government needs to prioritise.[19] Therefore, by leveraging the inherent strengths and addressing the current challenges, the manufacturing sector can emerge as a formidable contributor for the Indian economy.

Services

The services sector is one of the largest contributors in India's GDP and provides employment opportunities to a large section of the population. The industry's performance relies on multiple factors including the demand and supply of education, healthcare, hospitality, tourism, entertainment, e-commerce and digitalisation among others. Moreover, rapid urbanisation supports information technology, transportation, real estate, trade, housing, sanitation and utility services. In order to accelerate the growth of this sector, the Government should focus on fostering a conducive environment for the sector, skill development for the youth, promote investments in the sector and facilitate market access.

India has a rich demographic dividend with a median age of 28 with 65% of the population below the age of 35. Capacity building and training of the youth is important to harness the opportunities which arise from various sectors. Various schemes like the Pradhan Mantri Kaushal Vikas Yojana (PMKVY), **National Policy on Skill Development and Entrepreneurship** (NPSDE) and **National Apprenticeship Promotion Scheme** (NAPS) are boosting the skills of the country's population and helping in enhancing the employability rates. In 2024, 51.3% of the youth were employable compared to 34% in 2014.[20]

[14] https://www.pwc.in/assets/pdfs/role-financial-services-making-viksit-bharat-vision-2047.pdf

[15] https://pib.gov.in/PressReleasePage.aspx?PRID=2087835#:~:text=India%20has%20more%20than%2073%2C000,driving%20innovation%20and%20economic%20growth.

[16] https://www.pib.gov.in/PressReleasePage.aspx?PRID=1913705

[17] https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2074074

[18] https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1985020

[19] https://www.pwc.in/assets/pdfs/role-financial-services-making-viksit-bharat-vision-2047.pdf

[20] https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2036500#:~:text=This%20scheme%20aims%20to%20skill,guarantees%2C%20benefiting%2025%2C000%20students%20annually.

Table 1: Sectoral overview 2024 and 2047

Sector	Contribution to GDP (in USD billion)		Contribution to GDP (%)		Population involved for employment (%)	
	2024	2047	2024	2047	2024	2047
Agriculture	692	2400	18.2	8	42.3	30
Manufacturing	646	7500	17	25	20	15
Services	2090	18000	55	60	28.9	52.3
Others (quarternary and quinary sector)	461	2100	9.8	7	8.8	2.7

Source: India Budget, DD News, PwC analysis

In the services sector, banks act as a catalyst by providing the base to better tap export-import trade opportunities especially for IT enabled service companies. Global capability centres (GCCs) of many multinational companies are growing at a compound annual growth rate (CAGR) of over 16%.[21] Due to the availability of skilled talent, cheaper costs and ease of doing business in India, GCCs will continue to grow in the country in the coming years.

To achieve the vision of 'Viksit Bharat 2047', the Indian banking sector will need to future-proof its business model to redefine their value proposition and become more resilient. An ambitious agenda and a detailed roadmap should also be prepared for the next two decades to ensure that the goals can be met easily and sustainably.

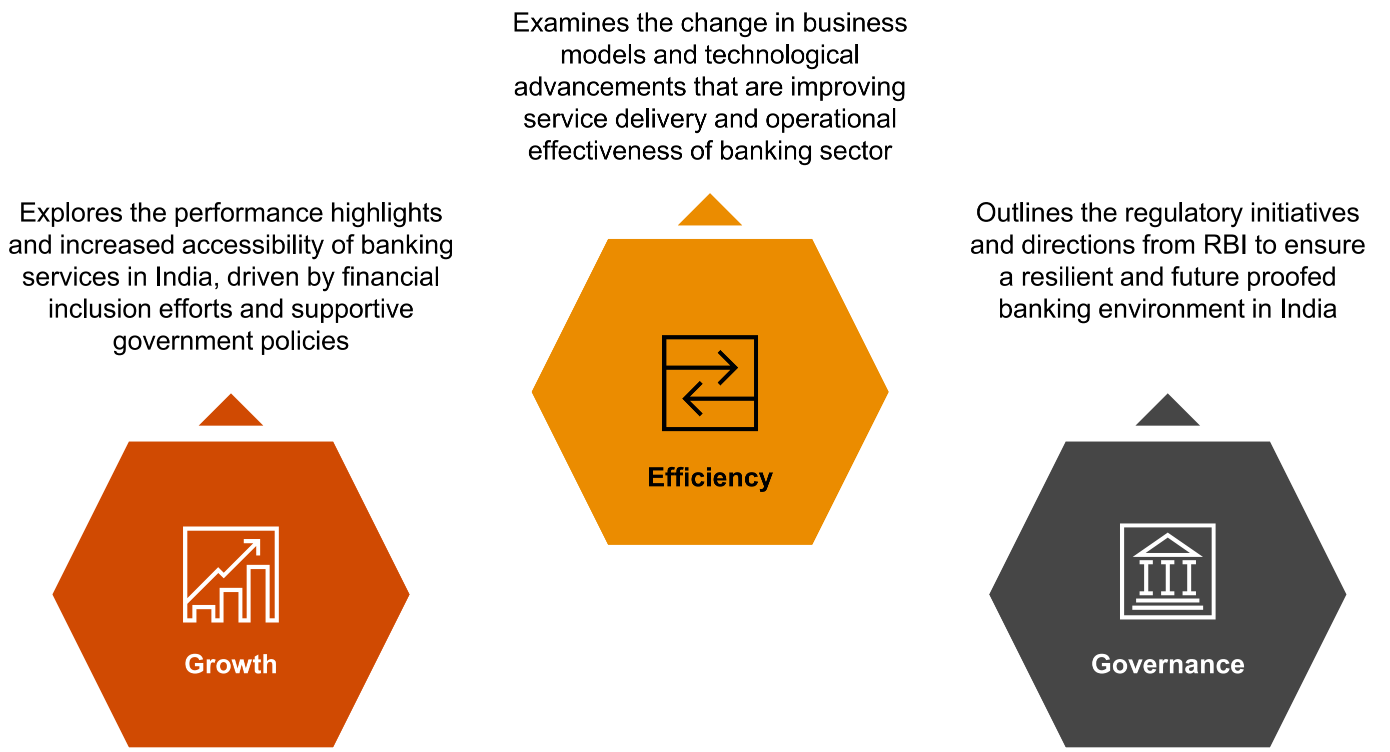
[21] https://timesofindia.indiatimes.com/technology/times-techies/bfsi-gccs-are-a-20-billion-business-and-growing-at-over-16/articleshow/113243727.cms

2. Transformation of the Indian banking sector

The Indian financial ecosystem is undergoing rapid changes due to changing customer needs and robust regulations set by the government and regulatory bodies. Although the sector is moving towards achieving greater financial inclusion, India is at a critical juncture to take the transformation to next level and create an extensive, autonomous financial system.

The progress of the Indian banking sector can be categorised under three pillars – growth, efficiency and governance. The following sections map the growth of the sector according to each of these categories.

Figure 4: Three pillared approach for mapping the progress of Indian banks



Source: PwC analysis

Growth

The Indian banking system comprising public sector, private sector, foreign and regional rural banks is crucial for sustaining the financial momentum by infusing capital and maintaining asset quality amidst transient challenges from other ecosystem players such as nonbanking financial companies (NBFCs), housing finance companies (HFCs), FinTech firms and asset management companies. The growth of the Indian banking system is largely driven by the adoption of digital technologies, evolving digital public infrastructures (DPIs) and government initiatives.

Financial performance

The banking sector in India is registering a strong performance in deposits, credit and key financial metrics like net interest margin (NIM), profitability, return on assets and return on equity among other parameters. Furthermore, the gross non-performing assets (GNPAs) of scheduled commercial banks are the lowest in the last 10 years.[22]

Figure 5: Performance highlights of scheduled commercial banks in India

Scheduled commercial banks in India

Growth in deposits

- Deposits stand at **INR 212.5 trillion** as of March 2024 registering a steady growth from **INR 126.4 trillion** in March 2019.

CAGR (2019 2024)**: ~11%**

Growth in credit

- Bank credit improved by **68%** from **INR 97.71 trillion** as of March 2019 to INR **164.32 trillion** in March 2024.

CAGR (2019-2024)**: ~11%**

Growth in return on assets

- ROA has improved significantly following the dip in March 2019 with **a negative figure of 0.2 to 1.3** in March 2024.

Decline in gross non performing assets

- Indian banks were able to maintain the asset quality by minimising the GNPA ratios achieving an **all time low of 2.8%** in March 2024.

Source: RBI Data, Economic Survey

[22] https://www.indiabudget.gov.in/economicsurvey/doc/eschapter/echap02.pdf

Financial services

Banks are prioritising providing services to all citizens through effective physical and digital means irrespective of the geographical constraints since the Government has emphasised the importance of financial inclusion and literacy.[23] Some of the recent developments and initiatives in the banking sector are:

There are 1,60,501 branches of banks in India as of September 2024, as opposed to 1,17,990 branches a decade ago with 85% of them being situated in rural and semi-urban locations.[24] The Government is particularly keen to ensure that a financial services outlet is present in every 5 km radius as recommended by the National Strategy for Financial Inclusion 2019-2024.[25]

The banking sector has been instrumental in facilitating the central[26] and state[27] government schemes like Mudra Yojana for Women, Mahila Udhyami Yojana, Mahila Samriddhi Yojana, Indira Mahila Shakti Udyam Protsahan Yojana and Deen Dayal Upadhyaya Bunkar Yojana to provide collateral free, low-interest rate loans and promote women entrepreneurs.

The effectiveness of banking expansion in India, supported by central and state government initiatives, is evident in the RBI's '**Financial Inclusion Index**' which has improved from 49.9 in 2019 to 64.2 in 2024.[28]

More than 50 crore individuals and numerous small businesses have been included in the formal banking system through the adoption of various digital banking capabilities, along with Government's people-centric initiatives such as the **Pradhan Mantri Jan Dhan Yojana (PMJDY), unified payments interface (UPI) and GST.**[29]

To improve credit access to individuals, small businesses and further enhance financial inclusion in the country a **Pre-sanctioned credit lines on UPI** feature has been launched which will streamline the process of the securing credit lines from banks and available for transaction via UPI instantly.[30]

The PMJDY scheme incorporates 53.14 crore accounts as of August 2024, with total deposits mounting to INR 2,31,236 crore and average deposit per account at INR 4,352 against INR 1,065 as of 2015.[31]

[23] https://rbidocs.rbi.org.in/rdocs/content/pdfs/NSFIREPORT100119.pdf
[24] https://pib.gov.in/PressReleasePage.aspx?PRID=2083695
[25] https://rbidocs.rbi.org.in/rdocs/content/pdfs/NSFIREPORT100119.pdf
[26] https://www.startupindia.gov.in/content/sih/en/women_entrepreneurs.html
[27] https://web.umang.gov.in/landing/scheme/category/Women%20and%20Child
[28] RBI Data - https://rbi.org.in/scripts/FS_PressRelease.aspx?prid=58259&fn=2754, https://rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=20502
[29] https://www.pwc.in/assets/pdfs/consulting/financial-services/fintech/publications/shifting-horizons-banking-readiness-for-2030.pdf
[30] https://www.npci.org.in/what-we-do/credit-line-on-upi/product-overview
[31] https://pib.gov.in/PressReleasePage.aspx?PRID=2049231

Efficiency

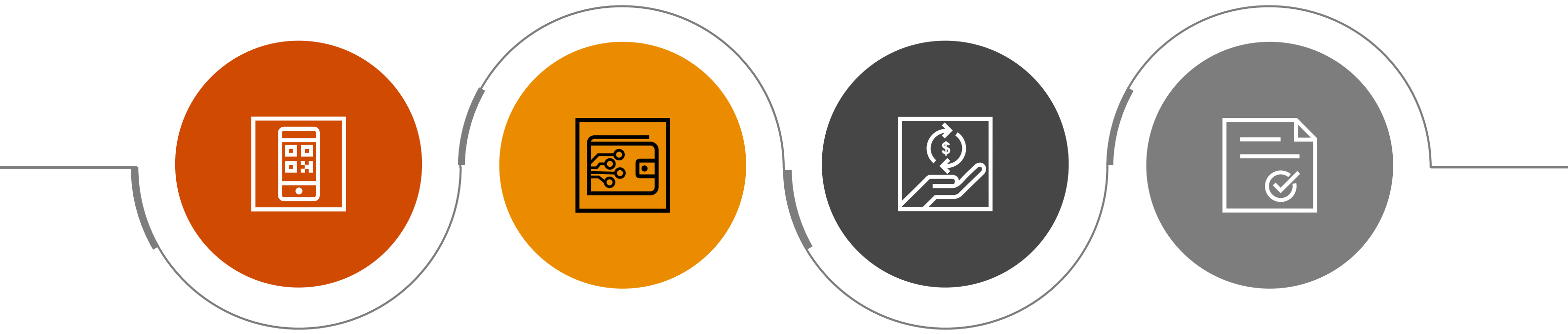
Banks are incorporating new business models and building new capabilities by adopting innovative technological solutions to position themselves at the forefront of the financial market comprising NBFCs, FinTech firms and other players. Indian banks are enhancing the efficiency of service delivery though all touch points by focusing on customer-oriented strategies, forming alliances, technological advancements and fulfillment of socio-environmental responsibilities. The following sections discuss the key developments in the banking sector in recent years.

Digital acceleration

Both the citizens as well as small businesses in India have adopted digital payments to conduct financial transactions without the need of physical cash. With the advent of the IndiaStack initiative, the outlook of digital public infrastructure in India has changed and gained global recognition with its robust digital capabilities for identity, payments and data management. This foundational leap introducing various DPI structures like **UPI, Aadhaar, Aadhaar Enabled Payment System (AePS), Account Aggregator (AA), e-KYC, Open Credit Enablement Network (OCEN), Open Network for Digital Commerce (ONDC), Unified Lending Interface (ULI)** and others have provided a significant boost in financial inclusion of the nation in this digital-first era. Some of the important milestones in digital payments are:

KYC processes have been streamlined with the introduction of CKYC platform and e-KYC processes have been adopted by banks for the digital onboarding of new customers which can be achieved by the integration of Aadhaar and mobile phones.

RBI is introducing new functionalities like **UPI Lite X** for offline payments and **UPI123Pay** enabling feature phone access.[34] These innovations will further improve the accessibility and convenience of the Indian digital payment system.



Digital payment transactions in India exhibited a tremendous growth achieving 13,462 crore transactions in FY 2022-23 from 2,071 crore transactions in FY 2017-18.[32] The role of UPI in the digital transactions is evident as the number of UPI transactions reached 16.85 billion with a value of INR 23.49 lakh crore as of October 2024.[33]

ULI is a new addition to the Indian DPI credit ecosystem which can be beneficial for the lenders to ease the credit assessment and disbursement processes. As per our analysis, ULI is expected to be an integral part of the lending ecosystem along with OCEN, ONDC and AA, in the future.[35]

[32] https://pib.gov.in/PressReleasePage.aspx?PRID=1988370
[33] https://www.npci.org.in/what-we-do/upi/product-statistics
[34] https://www.pwc.in/assets/pdfs/the-indian-payments-handbook-2022-2027.pdf
[35] https://www.pwc.in/assets/pdfs/unified-lending-interface.pdf

Reinventing business models

Indian banks are adopting new business models to overcome the challenges related to NBFCs, asset management companies, FinTech firms and other financial services players. With mounting pressure from FinTech firms coupled with advanced technology and customer-centric services, Indian banks are seeking to introduce new business models such as banking-as-a-service (BaaS) and beyond banking for providing financial and non-financial services to the public and stay relevant in this competitive landscape. The growth of BFSI global capability centres (GCC) in India can also generate significant revenue by creating more employment opportunities and leveraging the rich talent pool present in the nation.[36] Some of the various initiatives Indian banks have taken to remain competitive are:

The household savings directed into capital markets in recent years resulted in a minimal growth of bank deposits compared to AUM of mutual funds which have witnessed multi-fold growth.[37] To overcome this challenge, Indian banks have diversified their product offerings to include insurance, wealth management and investment services, and positioned themselves as a comprehensive financial service provider.

The affordable housing finance market is also making progress with support from government schemes like Pradhan Mantri Awas Yojana (PMAY) where an allocation of INR 2.30 lakh crore was announced in the Union Budget 2024.[38] Banks have been increasing their support to the affordable housing finance market due to the lower risk of NPAs higher yields and margins.[39]

Banks are currently shifting their focus on the underserved MSME market by diversifying their lending portfolio and onboarding super apps to provide a seamless, integrated platform that offers a one-stop solution for payments, credit, insurance and business management tools.

The introduction of **ONDC and AA** have further spurred the need for improving digital finance for value chains like manufacturing, agriculture and healthcare which has led banks to become part of a comprehensive digital financial services ecosystem. Supply chain finance (SCF) is one of the popular segments where banks can improve the efficiency in financial transactions and risk mitigation. The introduction of government initiatives like **Make in India** and **TReDS** platform will further boost the SCF penetration. Banks are also partnering with AgriTech firms and offering financial services to the farmers, and helping them with market linkages, equipment financing and crop related advisory services.[40]

Co-lending business model where banks are partnering with NBFCs, HFCs, and other FinTech firms is gaining popularity as it offers mutual benefits including access to banks' capital base, co-lender's customer outreach and technological capabilities.

Indian banks have been actively involved in green finance initiatives since the last decade, releasing adequate financial aids aimed at improving eco-sustainability. To support green financing, banks have started making amendments to the current lending and investment approaches which are in alignment with the framework established by RBI for green deposits.[41]

During and after the COVID-19 pandemic, healthcare financing has caught the attention of banks due to their lower penetration in this segment. Banks are keen on lending for medical equipment because of the proficient customer profiles with good credit scores and business acumen, and less chances for NPAs.[42]

Traditional banks are now partnering with neobanks which are gaining popularity with millennials, MSMEs and individuals without stable incomes as they offer banking services primarily through digital means without the need of a physical branch.[43]

36 https://timesofindia.indiatimes.com/technology/times-techies/bfsi-gccs-are-a-20-billion-business-and-growing-at-over-16/articleshow/113243727.cms

37 https://www.business-standard.com/markets/mutual-fund/mf-aum-surges-to-29-of-bank-deposits-on-market-rally-strong-inflows-124072201057_1.html

38 https://bfsi.economictimes.indiatimes.com/blog/trends-shaping-the-affordable-housing-finance-sector-in-fy25/113157386

39 https://bfsi.economictimes.indiatimes.com/news/banking/why-are-banks-lapping-up-on-affordable-housing-finance/99636668

40 https://www.pwc.in/assets/pdfs/consulting/financial-services/fintech/publications/shifting-horizons-banking-readiness-for-2030.pdf

41 https://www.pwc.in/blogs/net-zero-banking-creating-a-long-term-and-sustainable-financial-services-economy.html

42 https://economictimes.indiatimes.com/industry/healthcare/biotech/healthcare/healthcares-booming-banks-are-going-all-out-to-finance-it/articleshow/93762229.cms?from=mdr

43 https://www.pwc.in/industries/financial-services/fintech/fintech-insights/neobanks-and-the-next-banking-revolution.html

Technological advancements

As technology becomes a fundamental aspect of business operations, Indian banks have invested heavily in digital infrastructure, offering mobile banking apps, internet banking and other digital services to enhance customer experience and convenience. Due to the increase in transaction volumes and 24/7 access to the services, technology modernisation and building resilience have become important for banks. In addition to the current technological developments, banks are shifting their focus onto emerging technologies and cybersecurity measures as well. Some of ways in which banks can adopt technology are:

Adopting a cloud infrastructure will make it easier for the banks to rapidly expand the IT resources, establish/scale up the infrastructure providing new cutting-edge digital banking capabilities that offers improved security and regulatory alignment. RBI's cloud initiative,[45] with its pilot set to be launched by 2025, offers a public cloud platform to financial institutions for affordable data storage services.

Banks are looking forward to the **Central Bank Digital Currency (CBDC)** initiative from RBI and introducing the **e-Rupee**, a digital currency which is designed to facilitate seamless and anonymous payments. This initiative aims to improve financial inclusion, transaction efficiency, and cross-border payments while reducing the risks associated with cash handling.[44]

As cybercrimes continue to rise, banks are equipping themselves with modern technology solutions, upgrading their traditional algorithms and conducting awareness initiatives and periodic audits which could improve their data privacy and security.

The advancement of securing cross-border payments with the adoption of **blockchain** is expected to reduce the cost of transactions, the time it takes to complete transactions and the number of intermediaries needed for the completion of transactions.

With a focus on future readiness, banks are increasingly becoming keen to invest and leverage **quantum computing** for faster processing of complex computational problems against traditional computers which can result in better risk management, investment portfolio management, improved security and enhanced overall operational efficiency.

Integration of **AI and ML** which can open up various opportunities for banks including conversational AI chatbots, credit decisioning, fraud detection, hyper-personalisation and targeted marketing. Automating certain aspects of service delivery can also be achieved with the help of AI which can enhance customer satisfaction and lower the business operational costs.

IoT is paving the way for embedding financial services into physical devices. With the help of IoT-enabled wearables, customer can make real-time payments and gather more personalised recommendations based on their spending habits.

[44] https://www.pwc.in/assets/pdfs/research-insights-hub/immersive-outlook-4/future-of-digital-currency-in-india.pdf

[45] https://economictimes.indiatimes.com/tech/technology/rbi-plans-2025-launch-of-cloud-services-countering-dominance-of-global-firms/articleshow/115405872.cms

Governance

As the Indian banking sector continues on their transformation journey, strengthening governance in the banking sector is imminent for its success. RBI will play a critical role in this transformation by helping the banking sector implement various regulatory initiatives and measures. Through its regular interventions, RBI helps banks in mitigating risks, enhancing resilience and protecting sensitive financial information. These directions and initiatives will pave the way for the improvement and innovation needed for a future-proofed banking ecosystem.

Bank soundness index: Introduced by RBI, this index will help banks to monitor their financial health and support their transitioning to new fronts. This five-dimensional framework will cover major indicators including capital adequacy, asset quality, profitability, liquidity and management efficiency. [46]

Enhanced access and service excellence (EASE) framework: Government has shifted its focus to enhance the financial well-being of public sector banks with this new framework.[47] This initiative promises improved governance, regulated lending activities and reduction of other financial risks along with developing a more robust banking experience using improved technology.

Responsible and Ethical AI enablement: RBI has constituted an eight-member committee to prepare a Framework for Responsible and Ethical Enablement of Artificial Intelligence (FREE-AI) which includes governance aspects in the financial services sector of India. This will require the assessment of current adoption level of AI at national and global level, regulatory approaches worldwide, risks associated, mitigation measures and compliance requirements for financial market players in India.[48]

[46] https://rbi.org.in/Scripts/PublicationsView.aspx?id=21083

[47] https://pib.gov.in/PressReleasePage.aspx?PRID=2084546#:~:text=Strengthening%20PSBs%20through%20EASE%20Framework&text=This%20framework%20institutionalises%20an%20objective,and%20outcome%2Dcentric%20human%20resources

[48] https://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=59377

Innovation hub and regulatory sandbox: Reserve Bank Innovation Hub (RBIH), established in 2022, focuses on promoting the accessibility of financial services and aid the technology-driven developments in the financial services sector. The regulatory sandbox introduced by RBI allows the financial market players to evaluate and experiment new products in a supervised environment and expanding the access to digital financial solutions.[49]

Data protection compliance: As per the Digital Personal Data Protection Act,[50] banks would require customers' consent to manage personal data. In order to enable this, a comprehensive reassessment of data collection and processing practices should be conducted to ensure that sensitive financial data is used ethically and responsibly.

Risk management and consumer protection: RBI emphasises the importance of effective management of risks and enhancing the consumer protection measures for achieving financial stability. The roadmap for managing risks and implementing consumer protection measures can include introducing stringent licensing criteria, capital adequacy norms and transparent disclosure requirements.

With these regulatory initiatives and measures, RBI aims to position banks at the forefront of the transformation and provide a stable, secure and technologically sound banking landscape which can withstand the future challenges and leverage these opportunities.

The banking sector in India has already embarked on its journey towards 'Viksit Bharat' and will play a monumental role in shaping the economic progress of the nation. The banking sector can anchor this transformation by connecting various economic aspects together as they are critical for financial intermediation, government policies implementation, facilitation of global investments and trading, and boosting the financial inclusion of the nation.
The current landscape and readiness of the banks provides a head start for future advancements along with building required competencies and outreach activities. Banks must equip themselves with a resilient framework, a clear roadmap and milestone definitions.

[49] https://m.rbi.org.in/Scripts/FS_Overview.aspx?fn=2765

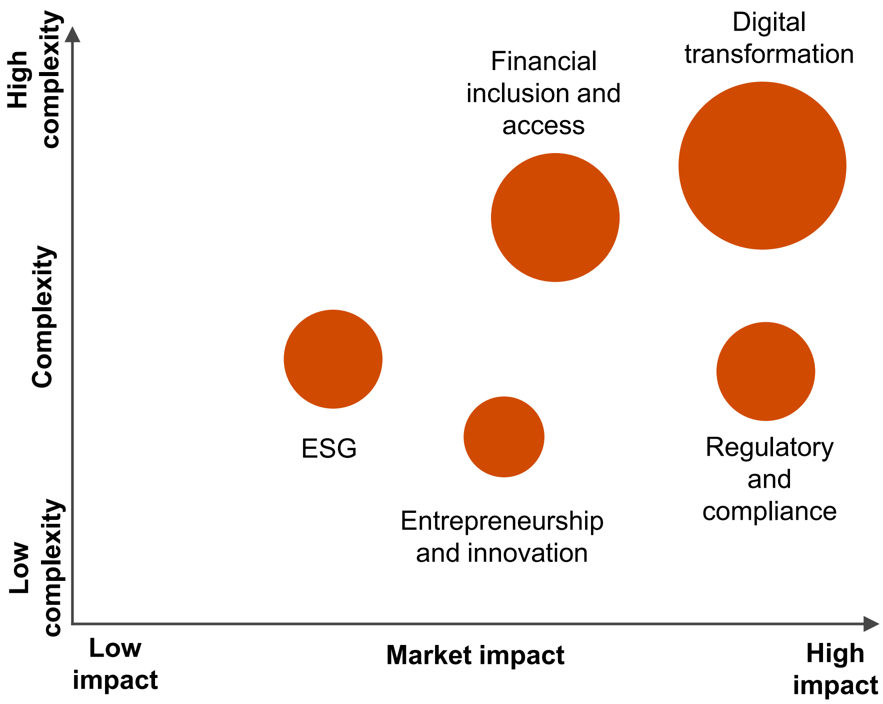
[50] https://www.rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1391

3. Currents trends which are shaping the banking industry

Banks are adapting to the changing dynamics of the global business landscape. While adopting of digital technologies, enhancing customer experience, and focusing on sustainability and ESG and cybersecurity are some of the common focus areas, our analysis with leading banks in the country revealed important insights related to their growth strategies and industry challenges. Some of the key questions and their responses are given in the following section.

Question 1: How is the bank aligning its overall strategy towards the country's vision of 'Viksit Bharat'?

Figure 6: Banks' focus areas in their transformation journey



Banks are focusing on digital integration to reduce cash use, enhance digital lending, and prevent fraud. They aim to expand digital banking by offering online loans and tackling challenges like data isolation. At present, the target audience of banks is Gen Z and they are also working on quick resolutions of concerns to enhance the customer experience. Banks are also committed to reaching the underbanked and are focusing on green sectors, supporting entrepreneurs, and streamlining underwriting for financial inclusion and sustainability.

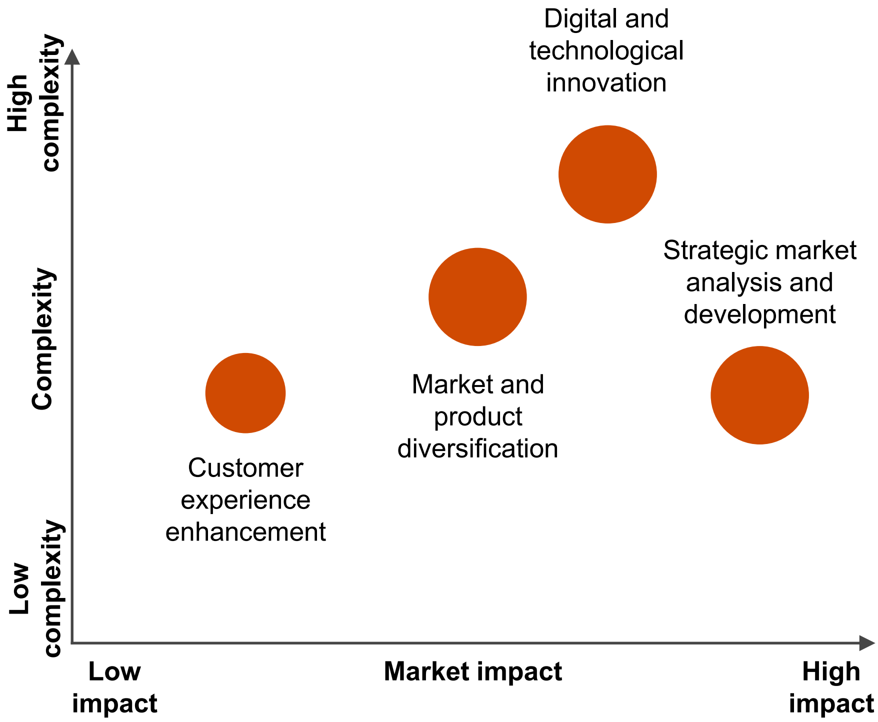
Some of the key focus areas for banks are:

- **Digital transformation:** Digital adoption, lending and transformation, cybersecurity, blockchain
- **Financial inclusion and access:** Financial inclusion, credit access, transparency, informal economy and economic integration
- **ESG:** Renewable energy, electric vehicles (EVs), green sector, environmental risk management and sustainability
- **Entrepreneurship and innovation:** FinTech, products focused on Gen Z, entrepreneur lending, female entrepreneurs and startup financing
- **Regulatory and compliance:** Fraud prevention, risk assessment tools, legal framework, reporting standard and regulatory technology (RegTech)

Source: PwC analysis

Question 2: What are the key strategic imperatives which banks are driving for the asset growth (retail, MSME, agri, corporate, Forex, etc.)?

Figure 7: Key asset growth drivers



Asset growth is strong in retail, MSME, agriculture, corporate and forex sectors. Enhancing digital platforms is crucial for efficient lending and better credit access. Banks use data analytics to offer personalised loans and improve financial solutions for agriculture and corporate clients, focusing on working capital and trade finance. Competitive exchange rates and seamless cross-border transactions are vital in forex. Partnerships with FinTechs drive innovation and efficiency, improving asset quality and diversification, which are key growth indicators for banks.

The following are the primary drivers within these respective domains:

- **Digital and technological innovation**: Digital lending, online financing, digital platforms, lending technology and technology adoption
- **Market and product diversification**: Product scope expansion and diversification, lending portfolio diversification, merchant overdraft, used car loans, product innovation
- **Strategic market analysis and development**: Market research, geographic hotspot assessment, regional market analysis and market penetration
- **Customer experience enhancement**: Ease of use, tailor-made solutions, customisation, targeted services, consumer-centric design and personalised offerings

“

Analytics illuminates the path to progress as it empowers:

- data driven governance for informed decision making
- evidence based policymaking for impactful outcomes
- citizen centric services for enhanced quality of life
- innovative entrepreneurship for economic growth
- optimised resource allocation for maximum impact.

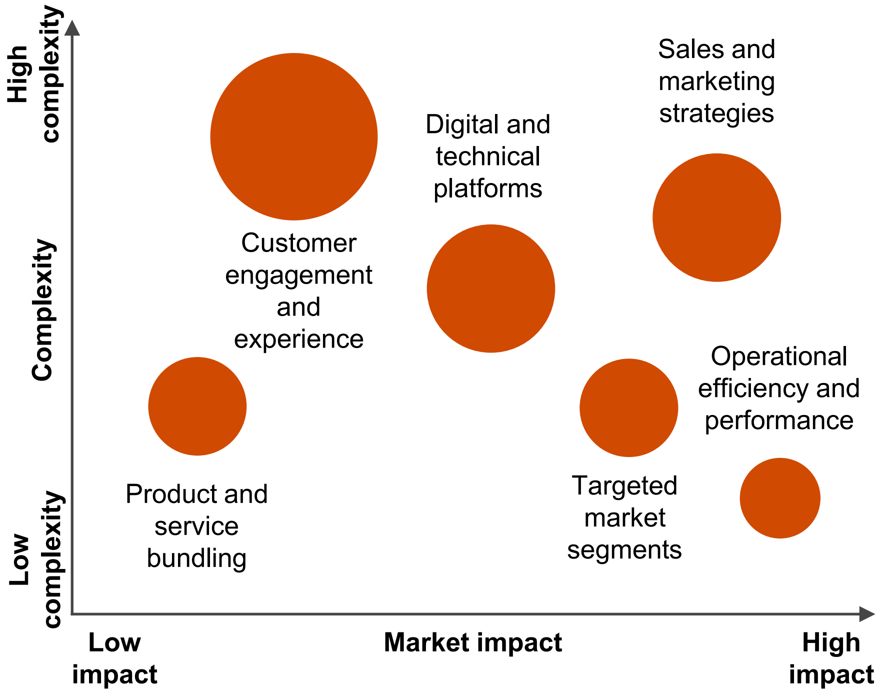
With the help of analytics, India's vision of becoming a prosperous, inclusive, and vibrant nation can become a tangible reality.

Ashutosh Mishra
General Manager
Bank of India

Source: PwC analysis

Question 3: What are the key strategic imperatives the bank is driving for the liability growth (retail, MSME, agri, corporate, forex, etc.)?

Figure 8: Key liability growth drivers



Banks are investing in super apps to enhance digital services and customer experience, which also drives liability growth. They use cross-selling strategies with products like insurance and deposits to increase engagement. To reactivate dormant accounts, banks employ a 'feet on street' approach, combining digital solutions with basic accounts, targeting retail deposits from both resident and non-resident customers. Platforms are incorporating products like mutual funds and insurance. Key performance indicators for overcoming challenges include improving net interest margin (NIM) and the current account, savings account (CASA) portfolio.

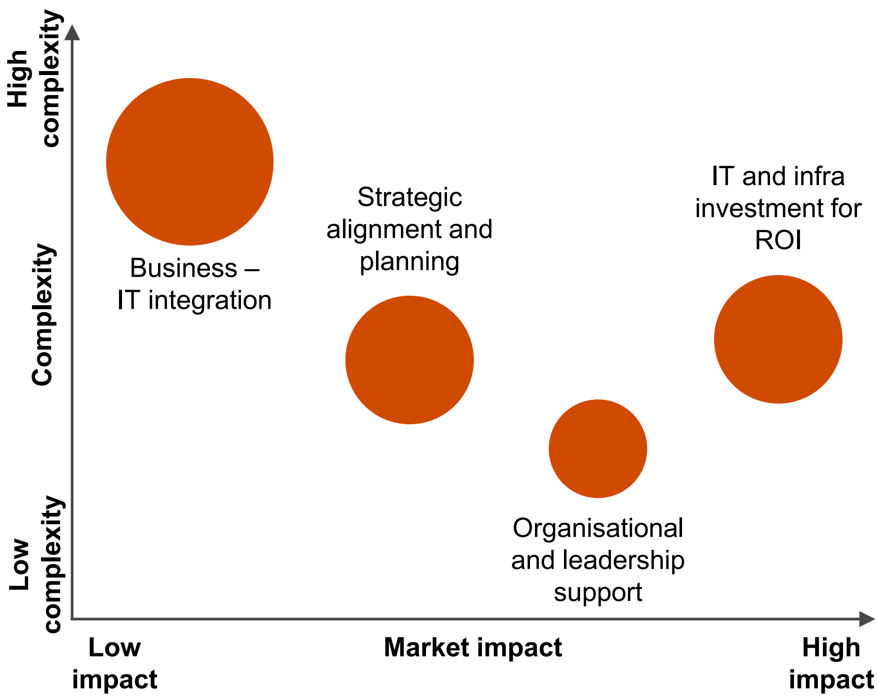
The following are the primary drivers in these domains:

- Digital and technological platforms, super apps, mobile application, technology investment and digital transformation
- **Product and service bundling**: Cross-selling, joint offers, bundled services, integrated offering, product synergy and digital solution bundling
- **Customer engagement and experience**: Customer offerings and loyalty, service delivery, customer engagement, user experience and omnichannel service
- **Targeted market segments**: Mass market, banking outlets, deposit expansion, affluent segment targeting, credit cards and forex services
- **Operational efficiency and performance**: Operational efficiency, financial optimisation, efficiency improvement and profitability enhancement
- **Sales and marketing strategies**: Feet on street, field marketing, sales strategy, banking accessibility and service enhancement

Source: PwC analysis

Question 4: Which challenges and strategies can improve business-IT collaboration in banks?

Figure 9: Challenges and strategies for business-IT collaboration in banks



IT and business collaboration is crucial but challenging. Businesses stress the need for IT knowledge among team leaders to bridge the technology-operations gap. Some banks create strategy groups to improve alignment. With the rise of app-based initiatives, business teams must adopt digital-first strategies, and IT should invest in infrastructure for ROI. Top management support is essential for effectively integrating IT within business teams.

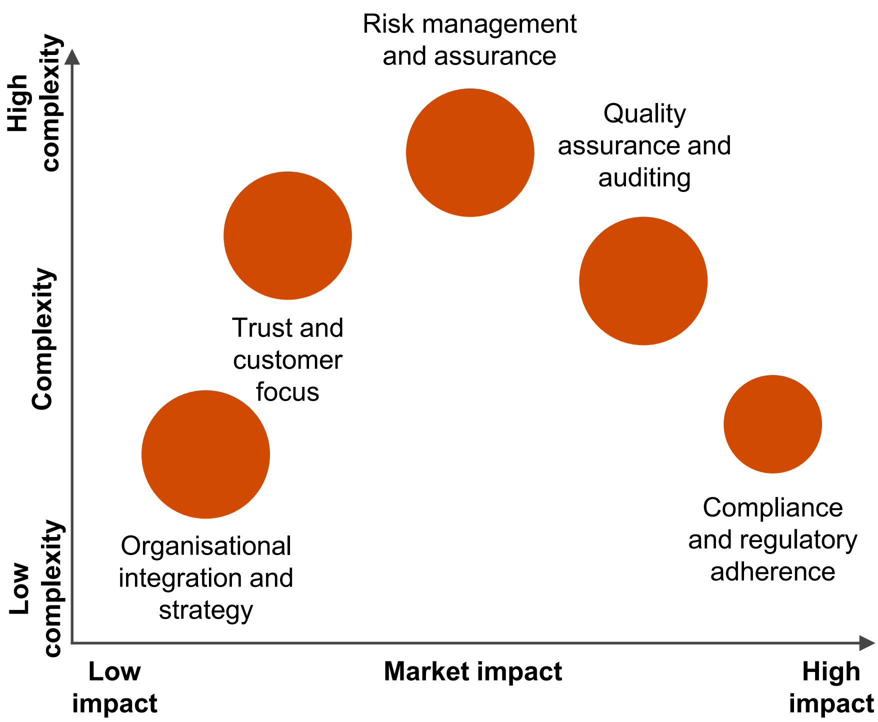
The following are the primary drivers within these domains:

- **Business-IT Integration**: IT-business alignment, organisational synergy and cross-functional integration
- **Strategic alignment and planning**: Alignment issue, business strategy group (BSG), strategic alignment and strategic planning
- **Organisational and leadership support**: Leadership understanding, gap bridging, top management focus and executive support
- **IT and infrastructure investment for ROI:** Changing customer segments, digital-first approach, FinTech strategy, infrastructure investment and technology integration

Source: PwC analysis

Question 5: What is the bank's plan for adherence to compliance and GRC norms and operational risk resiliency?

Figure 10: Compliance, GRC norms and operational risk resiliency



With reinforced adherence to compliance, GRC norms and operational risk resilience, banks are attempting to build customer trust. Dedicated departments are tasked with regular review exercises to maintain regulatory and compliance standards. Even though management challenges persist, efforts are being made to integrate assurance functions in daily business.

The following are the primary drivers within these domains:

- **Enhanced focus on compliance and regulatory adherence**: RBI regulations, regulatory and industry benchmarks, and norms implementation
- **Risk management and assurance**: Assurance integration, risk assurance and internal controls
- **Quality assurance and auditing**: Granular level audit, operational auditing and internal auditing
- **Organisational integration and strategy**: Organisational integration, assurance integration, process integration, change management and transition strategies
- **Trust and customer focus**: Building customer trust

"

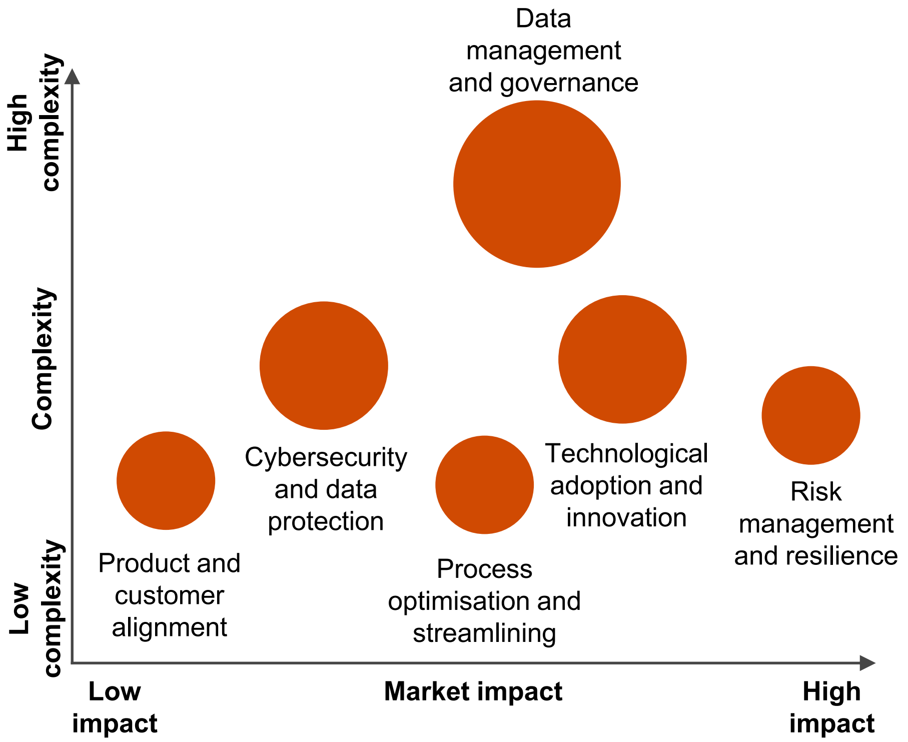
AI is the next revolution after mobile revolution. It is key for taking technology and its benefits to every home in the country with its augmented intelligence capabilities for an awakened India (particularly rural areas) is an important driver for achieving the Viksit Bharat vision.

Nehal Shah
General Manager Digital
IDBI Bank

Source: PwC analysis

Question 6: What challenges do you foresee for banking industry in the near future and what will be your recommendation?

Figure 11: Foreseeable challenges recommendations for managing them



The main challenge faced by the banking industry is cyber risk which raises the need for stronger data protection and siloed data. However, contrastingly, this hinders customer alignment. Increased regulatory demands and a rise in 'as a service' technology will lead to increased costs. Efficient data utilisation is key as the nation is becoming data rich. Banks also need to address mid-to-long term ESG and climate risks.

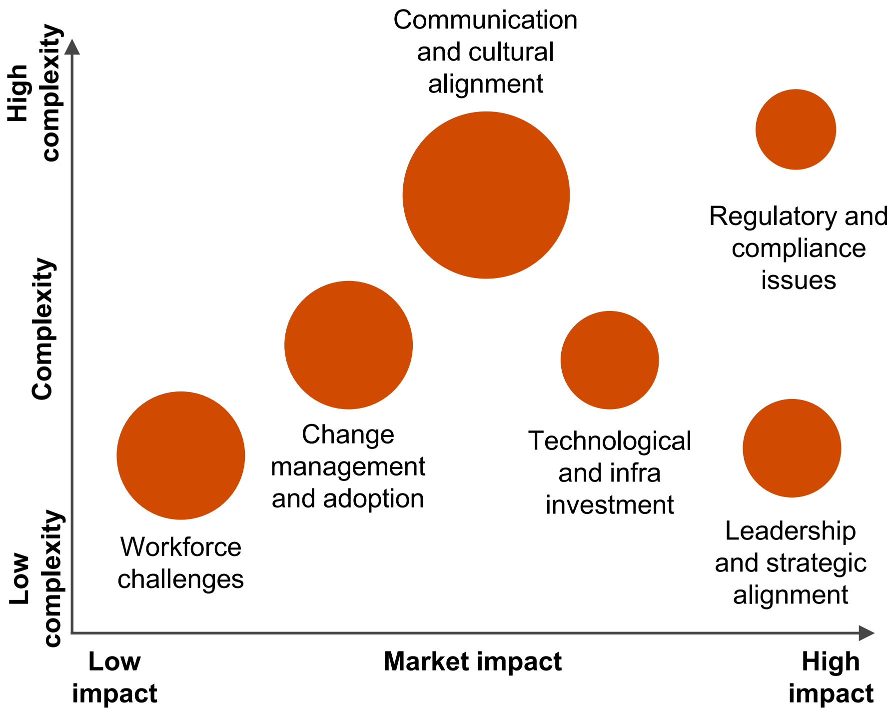
The following are the primary drivers within these domains:

- **Cybersecurity and data protection**: Cyber intrusions and risk, customer data security, data protection, information security, cyber defence and privacy safeguards
- **Data management and governance**: Siloed data, data integration, information management and data quality
- **Process optimisation and streamlining**: Process streamlining, workflow optimisation and process optimisation
- **Product and customer alignment**: Right product alignment, product-customer alignment, customer segmentation and data-driven marketing
- **Risk management and resilience**: Fraud management, real-time monitoring, early warning signals, ESG climate risk and financial resilience
- **Technological adoption and innovation**: 'As a service' engagement, operating costs, data utilisation, predictive analytics and strategic differentiation

Source: PwC analysis

Question 7: What challenges does your institution face in implementing new technologies?

Figure 12: Challenges in implementing new technologies



Banks face numerous challenges while implementing new technologies, mainly due to a lack of understanding about the financial impact of IT investments and the need for IT specialists. Internal issues like communication problems and high employee turnover slow growth, while externally, customer adoption and change management are ongoing hurdles. Compliance with regulations and having a skilled workforce familiar with new technologies are priorities. Effective change management is crucial for successfully integrating new technologies and staying competitive.

The following are the primary drivers within these domains:

- **Workforce challenges**: T specialists, HR rotation policy, high attrition, workforce retention, talent management and staff stability
- **Change management and cultural alignment**: Customer adoption, change management, transition planning, user engagement, organisational change and adoption barriers
- **Communication, stakeholder management and adoption**: Communication gaps, communication strategy and stakeholder management
- **Regulatory and compliance issues**: Regulatory compliance, legal adherence and vendor management
- **Technological and infrastructure investment**: IT benefits, balance sheet impact, IT investments, public sector, generative AI and emerging technologies
- **Leadership and strategic alignment**: Executive understanding, leadership acumen, business alignment, stakeholder engagement and resistance management

Digital transformation, personalised financial solutions and strategic partnerships are key drivers for banks to optimise their portfolios. These approaches not only enhance customer engagement but also ensure sustainable growth and resilience in an evolving financial landscape. By focusing on innovation, diversification and quality, banks can effectively contribute to a forward-looking, robust banking ecosystem. These challenges and recommendations highlight the key themes which can shape the future of the banking industry.

Note: Please note that the inclusion of any extract from third party/company/organization in this document does not imply any endorsement of such third party/company/organisation by PwC.

Source: PwC analysis

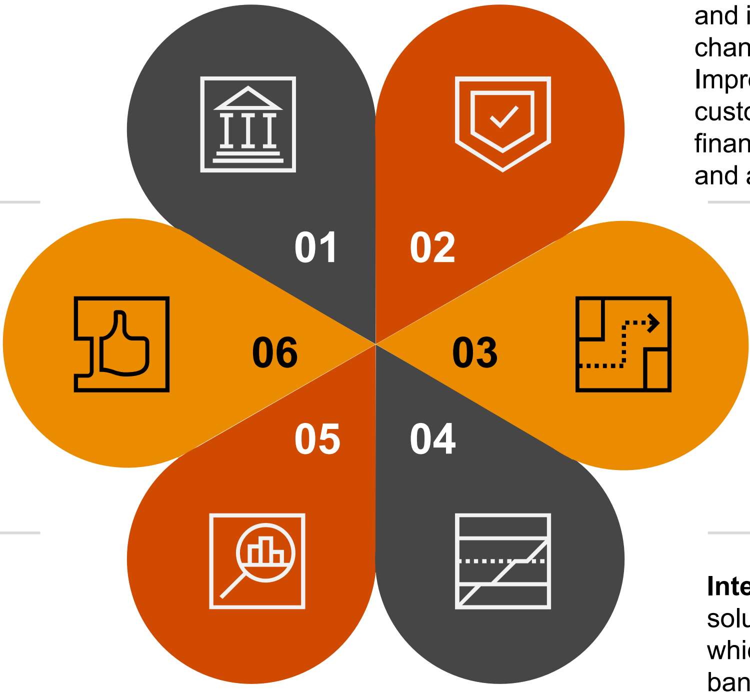
4. Key focus areas

A robust banking sector can provide the necessary capital for businesses to grow, particularly small and medium enterprises (SMEs), which are crucial for job creation and economic development. Augmenting banking services ensures that all segments of the population, including those in rural and underserved areas, have access to financial resources.

For the Indian banking sector to align with the vision of 'Viksit Bharat 2047', it should focus on the following areas:

Viable banking: Ensure that banking services are available to every segment of the economy.

Knowledge-based banking: Build a strong knowledgeable workforce, exchange of information and invest in understanding the changing trends of the economy. Improve financial wellbeing of customers through enhancing financial education and awareness.



Trust-based banking: Build trust in the banking system by upholding high standards of integrity and keeping risk mitigation and consumer protection at the forefront.

Innovative banking: Promote innovation in banking offerings and services by revisiting business models, operational methods and technology advancements.

Sustainable banking: Promote sustainability in banking operations by integrating environmental, social, and governance (ESG) into banking services.

Intelligent banking: Invest in solutions and capabilities which can facilitate intelligent banking operations using emerging technologies.

Banks need to introduce various initiatives across these focus areas to ensure that they are able to contribute towards the country's vision of becoming a developed nation by 2047. Some of the initiatives for each of these points are given in the table below.

Viable banking	• **Product innovation:** Tailoring the product and services to meet customer needs (e.g. offering micro-loans with flexible terms and conditions tailored to agricultural cycles or local business needs). • **Enhance digital shift:** Continuous focus on enhancing digital channels, improving customer adoption, thereby gaining scalability with efficient operations and optimised costs. • **Partnership-led banking:** Build partnerships with FinTechs and neobanks along with collaboration with other banks and financial institutions to provide access to new markets and customer base.
Knowledge based banking	• **Collaboration:** Banks must come together for data collection and building platform for integrate exchange of data sources as it can help them increase their knowledge of market participants, e.g. platforms like unified KYC, CKYC can simplify processes and help banks better manage risks. • **Sector-specific knowledge:** Banks can invest in specific economic research activities to understand various micro clusters of the economy as well as upcoming new segments like semi-conductors and green energy to better understand the new associated risks and provide guidance to their customers operating in these clusters. • **Financial wellbeing initiatives:** Banks should educate customers on financial management and planning to empower them. Partnering with universities or educational institutions for financial literacy programmes can help banks build brand recognition and trust among younger demographics.
Innovative banking	• **Business model re-invention:** Banks need to re-think the traditional ways in which they operate, deliver value and generate revenue. Advancements in areas like open banking, CBDC, digital ecosystems amongst others will force banks to move towards new business models. • **Technology led innovation:** Banks need to continuously invest in ongoing initiatives around cloud, generative AI and other emerging technologies to enhance product offerings, digital capabilities and improve the overall customer experience. • **Operational innovation:** Banks need to focus on augmenting process efficiencies, adopting lean methodologies and building productivity metrics to optimise acquisition and servicing costs. This can help banks respond more swiftly to market changes and customer needs.
Intelligent banking operations	• **AI:** AI has become a transformative force in enhancing customer service within the banking sector, e.g. platforms like Bhashini are working on regional language translation for masses, which can also be beneficial for banks. Banks must continue to leverage historical data to make proactive, data-driven decisions which enhance customer service, improve operational efficiency, service delivery and manage risks effectively. • **Intelligent operations:** Banks must continue to invest in intelligent automation to streamline operations, reduce errors, and increase efficiency. Activities like KYC, lending and transaction monitoring are expected to become more intelligent with lesser manual interventions using emerging technologies like AI. • **Digital assets:** Digital assets can significantly enhance intelligent banking operations, e.g. CBDCs, tokenised assets on blockchain can offer new ways for customers to interact with financial services in a cost-effective manner.

Sustainable banking	• **Sustainable financing:** As a part of sustainability in the banking sector, banks need to increase financing initiatives for business and projects that contribute to sustainable development goals like renewable energy, climate financing, infrastructure and rural development. • **Social responsibility:** Banks also need to engage and invest in community development projects and promote financial inclusion to support social wellbeing. Similar to COP26 and the Net Zero Banking Alliance initiative for sustainability, banks in India must also come together and focus on environmental issues and concerns related to food production, energy generation, transportation and infrastructure. • **Green banking products:** Banks can engage in several product innovations to promote sustainable banking, like carbon offset products (purchase carbon credits of invest in carbon reduction projects), and eco-friendly credit and debit cards.
Trust based banking	• **Robust compliance:** Regulators must use advanced analytics to enhance efficacy and efficiency of supervision and increase monitoring of all activities for which banks need to invest in and improve their compliance function. • **Consumer protection:** Regulators also need to strengthen consumer protection regulations to ensure fair banking practices, thereby requiring banks to continuously improve and strengthen their governance practices. Better supervision of grievance and redressal mechanisms can lead to a seamless banking experience for customers and enhance their trust in the organisation. • **Digital resilience:** Banks need to focus on protecting themselves as well as their customers from digital threats and frauds. In order to do so, they need to increase their investments in cybersecurity solutions and customer awareness programmes.

The focus areas discussed above can be adopted by banks based on where they are in their transformation journey. Though some banks have already commenced working on these areas, it is imperative that all banks collectively adopt these practices to enhance the overall banking industry. A continuous monitoring process should also be adopted to measure the impact of these initiatives across key metrics such as revenue, efficiency and governance. Together, these efforts aim to create a more inclusive, innovative, and sustainable banking environment that aligns with the vision of Viksit Bharat.

5. Way forward

To enhance the role of the banking sector in achieving the vision of ‘Viksit Bharat’, the Government should focus on improving the current **infrastructure**, encourage the expansion of financial services into rural areas, support **financial education** initiatives, develop **AI-based solutions** and introduce frameworks and guidelines for the governance of these solutions. While the government focuses on infrastructure and extending banking services across the country, regulators should focus on risk governance, customer protection, financial literacy, sustainable banking goals and innovation, and how organisations can navigate the challenges related to adopting new technologies like **blockchain and GenAI.**

The road ahead looks promising for the banking sector. Though many banks have begun their transformation journey and are focusing on digital solutions, innovation and impact-led initiatives, there is much more to accomplish before the sector can become an integral part of the country’s economic development. The next decade is critical, and banks must develop well-defined strategies to ensure that the sector can act as an enabler for other sectors and support them in their growth journey.

Acknowledgements

As a part of developing this thought leadership paper, we have interacted with various representatives from the banking industry including representatives from Bank of India, IDBI Bank, RBL Bank, Equitas Small Finance Bank and City Union Bank.

Notes

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