

Discussion

India's Financial System: Building the Foundation for Strong and Sustainable Growth by Mr. Alfred Schipke

Discussant

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Overview and Highlights of this book

- This book focuses on the relationship between India's economic growth and financial system.
- It includes a comprehensive analysis of the banking sector, non-banks, bond markets, financial inclusion, digitalization, and policy responses.
- The book is unique with high contribution, addressing an area that has not been adequately discussed in previous studies on financial systems in developing countries.

Indian Financial Sector: Past and Present

Past: Financial system \equiv banking system.

Public sector banks are the giant players.

Present: Public sector banks have dominant power, but other players (e.g., private sector banks, nonbank financial companies) have increasing roles.

Nonbanks in the India's financial system

- One of the key issues in the Indian financial system is the NPLs of public sector banks and non-bank financial companies.
- Notably, after the collapse of the IL-FS, Indian nonbanks often appear in newspapers in Japan.
- India's nonbanks have become an issue of discussion and research, including microfinance and fintech companies.

	trillion rupies			
	SCBs✘		Nonbanks	
	size	no.	size	no.
2015	120.4	71	20.7	11,906
2016	131.3	73	24.4	11,764
2017	141.5	72	28.9	11,605
2018	152.0	67	37.8	10,281
2019	165.2	87	44.6	9,642
2020	178.8	86	49.2	9,590

✘This consists of PSBs, PRBs and FBs.

Source: RBI "Statistical Tables Relating to Banks in India (STRBI)" and RBI (2021) "Discussion Paper on Revised Regulatory Framework for NBFCs - A Scale-Based Approach." p.12

Digitalization and financial exclusion.

- India is one of the world's leading fintech nations.
- **Payments:** India has a payment infrastructure called UPI, which is provided by the National Payments Corporation of India (NPCI) and an initiative of RBI. UPI is a low-cost and fast system. CBDC is also being considered by the RBI.
- **Lending:** “It takes just 15 seconds for a single loan screening.”
- This book shows that financial inclusion in India is progressing and digitalization plays an important role in achieving this goal.
- Pradhan Mantri Jan Dhan Yojana (PMJDY) scheme, aiming to provide bank accounts to all households, is the biggest financial inclusion initiative in the world.
- Problem: The digital divide remains.

Questions

Q1. The future of India's financial system.

- How should we consider India's uniqueness?

Public sector banks in India are much less efficient than those in other banks, notably in the aspect of governance. In spite of that, they still have an important role to play. **What roles can public sector banks play in fostering the country's development?**

- **What reforms to public sector banks are necessary taking into account India's unique circumstances?**

ROE	All SCB	PSB	PVB	FB
2012-2013	13.8	13.2	16.5	11.5
2013-2014	10.7	8.5	16.2	9.0
2014-2015	10.4	7.8	15.7	10.2
2015-2016	3.6	-3.5	13.8	8.0
2016-2017	4.2	-2.1	11.9	9.1
2017-2018	-2.8	-14.6	10.1	7.2
2018-2019	-1.9	-11.4	5.5	1.6
2019-2020	0.8	-4.2	3.3	1.6
2020-2021	7.7	4.7	10.3	9.2

ROA	All SCB	PSB	PVB	FB
2012-2013	1.0	0.8	1.6	1.9
2013-2014	0.8	0.5	1.7	1.5
2014-2015	0.8	0.5	1.7	1.8
2015-2016	0.4	-0.1	1.5	1.5
2016-2017	0.4	-0.1	1.3	1.6
2017-2018	-0.2	-0.8	1.1	1.3
2018-2019	-0.1	-0.7	0.6	1.6
2019-2020	0.2	-0.2	0.5	1.6
2020-2021	0.7	0.3	1.2	1.6

Source: RBI, *REPORT ON TREND AND PROGRESS OF BANKING IN INDIA*,

Q2. Digitalization.

- UPI is a unique and promising system with the potential of being adopted abroad.
- Digital lending is growing rapidly and is increasingly offered by nonbanks. This complements the functions of banks.
- **Will this create a new financial landscape in the South Asian region?** For instance, what will be the impacts on future competition in the financial sector and the use of payment services in the South Asian region? What is the potential of India to become a fintech center in this region?
- In addition to financial inclusion and the emergence of new industries, digitalization can change the way financial services are used in developing countries.

Q3. Poverty and financial inclusion.

- Digitalization and the PMJDY, aiming to provide bank accounts to all households, have advanced financial inclusion of the unbanked and underbanked segments of the population.
- The growth of nonbanks has also been associated with the growth of microfinance, expanding credit availability for the poor and SMEs.
- Nonetheless, there are problems such as borrowing without a repayment schedule, taking a life, or being scammed.
- In light of this, financial literacy has become an important matter. **What are specific aspects to do to increase financial literacy?**

Thank you for this opportunity.

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