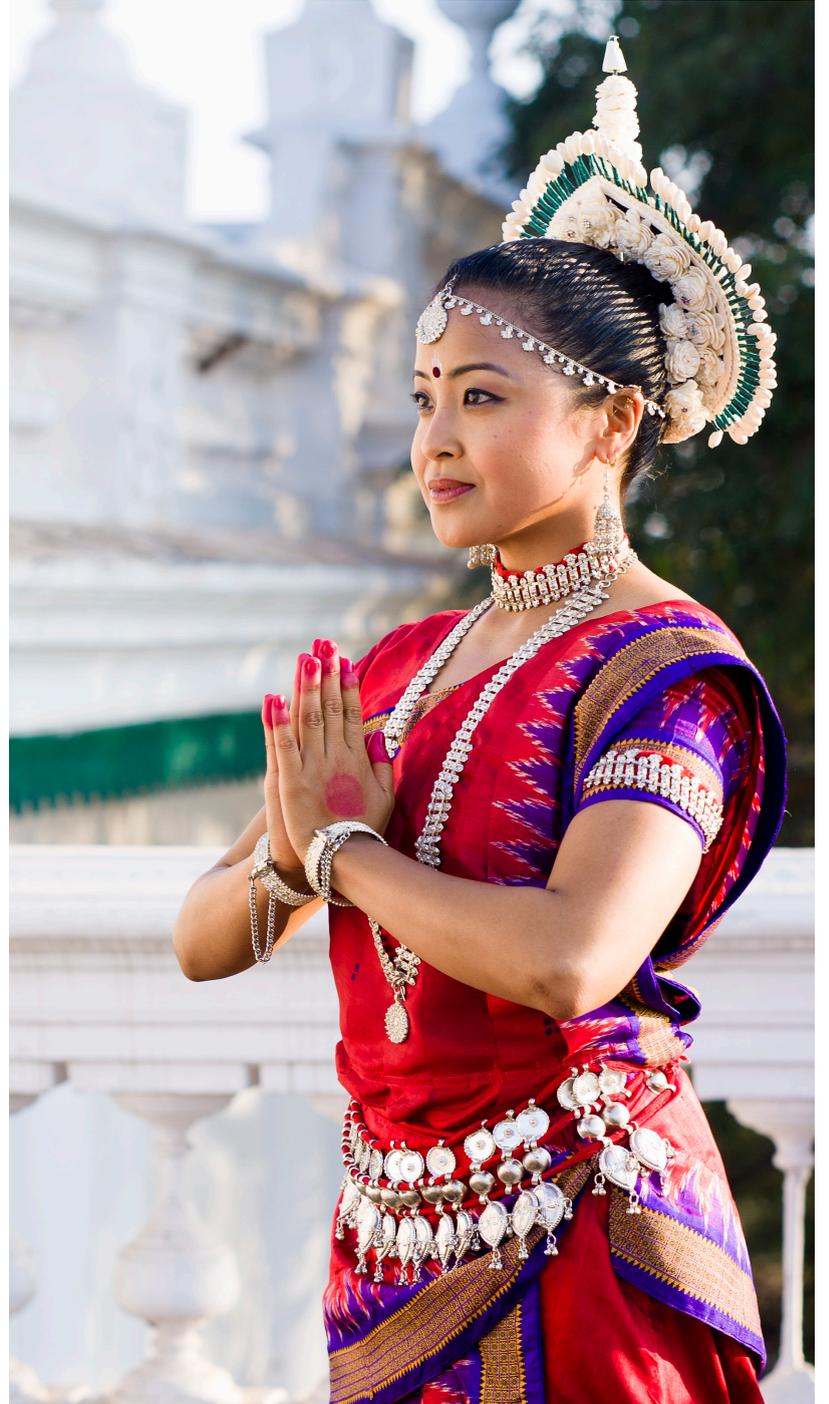


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Foreign banks in India

At an inflection



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Foreword

When the history of our times is written, it is unlikely to be kind to banks. The global financial crisis and the large-scale downward adjustments to the lifestyles of many in the West has tarnished the image of banks and eroded the foundation on which these institutions were built- public trust.

And yet, the banking system not only survives, it manages to pull itself together to fulfil the enhanced expectations from ever more vigilant and demanding stakeholders. Some of the largest banks in the world learn lessons in humility as capital and compliance standards seem constantly inadequate to stand up to the aggressive benchmarks set by regulators to restore confidence in their banks, and possibly themselves.

India, as one of the rising stars of the pre-crisis global economy has seen a stable rise in its banking sector. It has been one slow and steady trend post the opening of the economy and the first wave of banking reforms in the 1990s. Foreign banks were earlier high-end service providers and employers of choice for the Indian elite. Yet, they have now transformed to somewhat blend in with the local landscape, experimenting with products suited to the Indian way of living and enterprise, doing what they do best; providing cross-border borrowings, capital and access to global markets. Although the image of banks has not taken as severe a beating as in the West, the sensitivity of regulators to systemic risk issues and the alignment of regulatory regimes across the globe have resulted in challenges.

In the above context, we set out to meet foreign banks in India for their views on the market environment, tax, legal and regulatory framework as well as use of technology and quality of human capital.

In our conversations, we felt a sense of relief at being in a well-regulated jurisdiction and also a sense of being overwhelmed with too many changes; in regulations, in taxation and in the changing competitive landscape. We sensed discomfort with commoditised business models and the lack of ability to differentiate due to prescriptive guidelines. We felt restlessness at the slow pace of growth forced by a strict branch licensing regime and inability to use inorganic means of growth. Local managements of most foreign banks seem acutely aware of the changing demands of the economy and the potential for growth in the SME or retail segments. Yet, the balancing act between home countries' risk management and local regulator's push for inclusion, with little flexibility on distribution models continues to be a deterrent.

We were fortunate to have a majority of foreign banks present in India participate in this survey. The list of participants and the survey questionnaire are placed in Chapter III, alongwith relevant data. This is a representative sample. The survey responses were collected and compiled prior to the release of the final guidelines by RBI on local incorporation of foreign banks. Although the guidelines are voluntary for most foreign banks operating in India, we believe that the framework is likely to create an inflection point for foreign banks as the dialogue between regulators and industry on the subject progresses and finer details of implementation emerge.

Although a dispassionate analysis of the India opportunity or the India threat will show a long-term secular trend of growth ignoring short-term exuberance or pessimism, in reality, the foreign bank branches in India compete with other geographies for resource, capital and talent allocation. While the decision to stay or grow requires fervent championship within organisations, there are many instances of banks withdrawing from India on the back of minor or major shocks. In such cases, attempting to regain foothold and re-build credibility with regulators or clientele is not easy. On the other side, policymakers expecting long-term commitment from global organisations have the responsibility to provide a somewhat predictable growth path that can make long-term view on the India business possible. Indeed, no one should have to be in India, they should want to be in India.

We are grateful to our survey participants. We believe this is the right time to engage in this dialogue. We also hope that the Indian economy and the foreign banks present in India will continue to grow and create a higher degree of trust and value for each other.

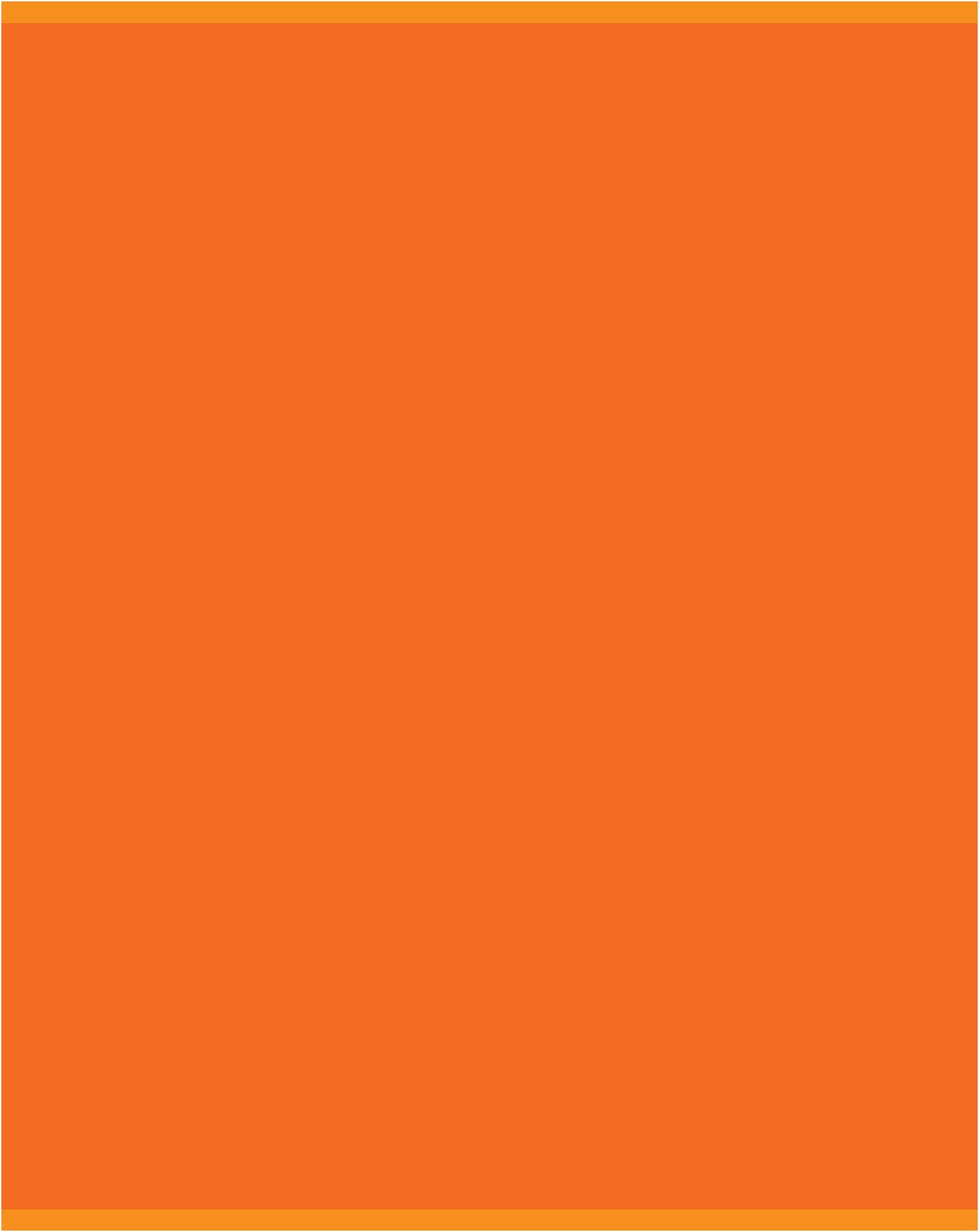
We owe thanks to the team of young researchers working on this project. Their enthusiasm to explore the subject and find themes, global practices and interesting facts was inspiring. We do hope you will find the report useful.



Manoj K Kashyap
Leader, Financial Services



Shinjini Kumar
Leader, Banking and Capital Markets



The story so far



Introduction

The story of foreign banks in India goes back to the 19th century when the colonial economy brought with it the need for modern banking services, uniform currency and remittances by British army personnel and civil servants. The earliest banking institutions, joint stock banks, agency houses and the presidency banks, established by the merchants during the East India Company regime largely catered to this growing need. While the agency houses and joint stock banks largely failed and disappeared, the three presidency banks would later merge to form the State Bank of India, India's largest lender. British owned and controlled, these early banks may be considered India's first 'foreign banks'. It was decades after their establishment that the first bank owned and controlled by Indians, the Allahabad Bank, would be established.

The opening of the Suez Canal in 1869, shift in the balance of global east-west trade flows through Indian ports, introduction of the railroad and telegraph

and other infrastructure improvements, all contributed to growing interconnectivity of the Orient with the Occident, as the colonial powers of Europe spread across Asia and Africa. This was followed by a phase of numerous Indian or foreign banks coming up to service different segments of the economy; a landscape described by Lord Curzon as "some old fashioned sailing ship, divided by solid wooden bulkheads into separate and cumbersome compartments."

Milestone events for banking in India such as the passing of the Reserve Bank of India (RBI) Act, 1934, the creation of the central bank in 1935, bank nationalisation in 1969 and 1980 did not impact foreign banks much. They adapted well to the changing economy and retained their niche as service providers and employers of the elite; bringing capital, innovation and best practices from their home countries.

The first phase of banking reforms, triggered by recommendations of the Narasimhan Committee in 1991 and the licensing of the new private sector banks

through the next two decades inaugurated an era of change. Meanwhile, the opening-up of the economy to increased participation by foreign players created greater opportunities for foreign banks to work with their multinational clients in India. In the more recent past, foreign banks have followed Indian corporate entities in their outbound expansions.

The survival of the banking system in India through the financial crisis has demonstrated its strengths and most foreign banks present in India believe that India is a market with undeniable potential. However, like their predecessors, they continue to look for the best possible role they can play amidst the challenging political economy, heightened competition and changing financial services regulations

Foreign banks in pre-independence India

Foreign banks in India today, such as Standard Chartered Bank and HSBC, found their roots in financing the growing trade between Asia and the rest of the world. Traditional trade items at the time were cotton from Mumbai, indigo and tea from Kolkata, rice from Burma, sugar from Java, tobacco from Sumatra, hemp from Manila and silk from Yokohama, all flowing to the west through Indian ports, making India an important destination for these banks.

Standard Chartered Bank's antecedent, the Chartered Bank of India opened an office in Calcutta in 1858, after receiving a Royal Charter from Queen Victoria. The Hongkong and Shanghai Banking Corporation (HSBC), present in pre-independence India through branches, took a major inorganic step in 1959 when it acquired the erstwhile Mercantile Bank in India. The Comptoir d'Escompte de Paris, which would later become one of the entities to form BNP Paribas, started operations in Calcutta in 1860, and represented the French as the second nationality to have a major banking presence in the country after the British.

Major American banking companies were at the time restricted by law from operating outside the US. The relaxation of these laws paved the way for the global expansion of American banks in the early 20th century. Citibank, or as it was known then, The National City Bank of New York, entered India in 1902, and JP Morgan, which had ambitions of entering India as early as 1902, did so in 1922 via an ownership stake in the Calcutta merchant banking firm Andrew Yule and Co. Ltd.

Foreign banks in India today: A snapshot

As of March 2013, there are 43 foreign banks from 26 countries operating as branches and 46 banks from 22 countries operating as representative offices. Although the discussion around differential licensing is still nascent, there is one foreign bank present as a credit card issuer with limited banking licence. In addition, a number of foreign banks have also entered India via the NBFC route, while a considerable number have set up captive centres in the country.

Foreign banks present in India as representative offices often have correspondent banking relationships with domestic banks and provide a useful platform for foreign banks to access opportunities for foreign currency lending to Indian corporate and financial institutions.

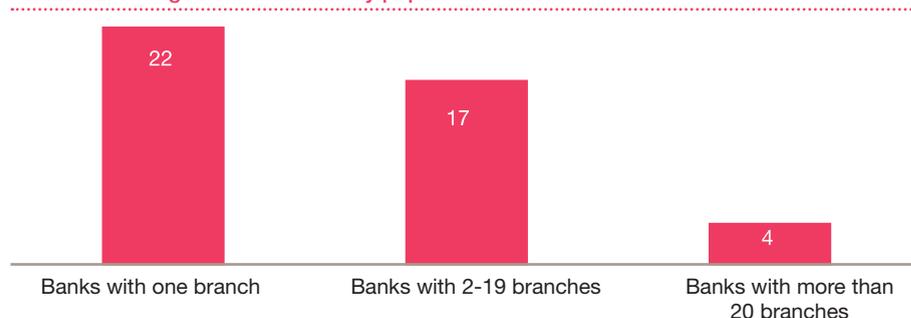
Foreign banks have less than 1% of the total branch network but about 7% of the total banking sector assets and a sizeable 11% of profits. With 334 branches in all, the share of foreign bank branches is less than 1%. (*Exhibit 1 and 2*)

Exhibit 1: Foreign banks' share of banking assets and profits

| | Foreign banks | Public sector banks | Private sector banks |
|-----------------------------------|---------------|---------------------|----------------------|
| Number of banks | 43 | 26 | 20 |
| Number of branches | 327 | 75,779 | 16,001 |
| Share of deposits | 4% | 77% | 19% |
| Share of assets | 6% | 74% | 20% |
| Share of off-balance sheet assets | 63% | 18% | 19% |

Source: Database on the Indian Economy, a profile of banks 2012-13, RBI

Exhibit 2: Foreign bank branches by population centre



Source: Bank Branch Statistics, Database on the Indian Economy, RBI

For most foreign banks, their relationship with Indian corporate clients is pivoted around their ability to provide access to global capital and debt markets. Although data relating to individual bank's exposure to India through onshore credit and offshore ECB and trade finance is not available, taking the total ECB data as a proxy for offshore exposure, it is interesting to see the consistent upward trendline for external debt. Understandably, the onshore exposure and its growth are related to the performance of the economy and market share of foreign banks. (Exhibit 3)

Although foreign banks largely operate at higher levels of efficiency and maintain low net NPA ratios, due to exposure to the same group of clients, the risks are co-related. Interestingly, one of the biggest challenges facing foreign banks is client selection. Although the Indian economy has grown at a healthy rate, there are only a handful of Indian corporates with credible governance processes and global reputation required to pass muster with the credit divisions of these banks. Increasingly, such clients are also being pursued by domestic banks with larger single obligor limits and greater autonomy to take decisions locally. This automatically segments foreign banks as 'niche' service providers which often collides with the 'universal banking' policy regime.

Foreign banks: Evolution and approaches to banking in India

Due to the local branch regime and the operating model of choice, foreign banks have, for the large part, remained niche players, focussing on trade finance, external commercial borrowing, wholesale lending, investment banking and treasury activities. Some large foreign banks have focussed on capturing the retail market but have remained confined to the high end of private banking and wealth management, while a few others have created valuable niche offerings in the areas of transaction banking, cash management and remittance products.

With India emerging as a major Information Technology (IT) service provider in the 21st century, many global banks set up business processing offices (BPO) in India; primarily to take advantage of the low-cost technology and availability of English-speaking employees. Some foreign banks also created centres of excellence that provided services at the higher end of the value chain. Although not in scope for the present survey, these operations of foreign banks have created attractive and large-scale employment opportunities for educated Indians and have been an interesting part of India's economic, social and cultural landscape.

With the growing importance of IT to banks, foreign bank BPO centres in India

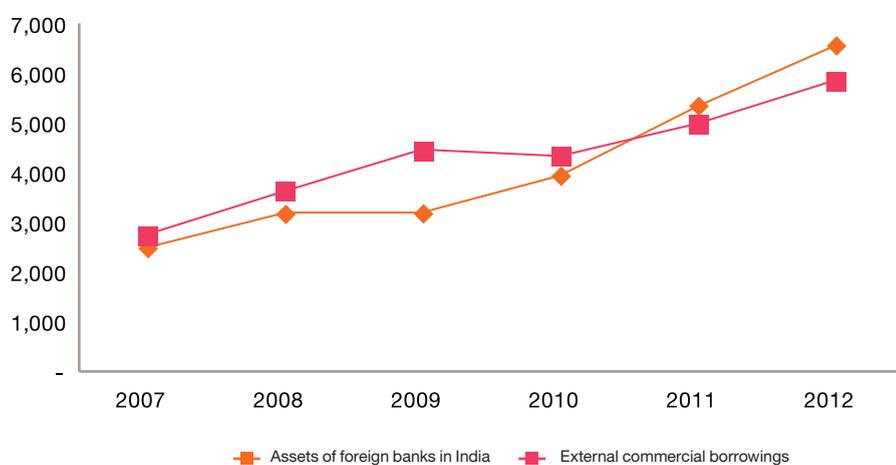
have expanded the scope of their services, providing data analytics, and data-backed solutions, that contribute to the efficiency and profitability of these banks globally.

Liberalisation of Foreign Direct Investment (FDI) norms for financial services provided further strategic entry routes for foreign banks in the form of NBFCs that could provide specialised non-banking financial services such as stock broking, merchant banking, leasing and finance and others to specific segments of the economy.

Foreign banking groups present in India as branches also took this opportunity to set up separate entities to provide specialised services. This led to the formation of financial conglomerates or large franchises with multiple entities. In the absence of flexibility on expanding the branch network, the lending NBFCs also created an opportunity for foreign banks targeting retail clients to create the level of outreach required for their operations.

However, the 2006 guidelines on Financial Regulation of Systemically Important NBFCs and Banks' Relationship With Them and subsequent regulations have significantly limited this opportunity by stipulating consolidated capital market limits and otherwise frowning upon what regulators consider to be 'regulatory arbitrage' between a bank and an NBFC engaged in an activity permitted in the bank.

Exhibit 3: Both offshore and onshore books have grown, but at a different pace



Source: Database on the Indian Economy, RBI

“Opening up to foreign banks and other financial firms and to foreign direct investment in the financial sector has many potential benefits. These include the introduction of financial innovations and sophisticated financial instruments by foreign financial firms, added depth in domestic financial markets due to foreign inflows, and more efficiency in the domestic banking sector through increased competition.”

- Raghuram Rajan Committee Report on Financial Sector Reforms, 2008

Foreign banks: Bringing global innovation standards to banking practice in India

In addition to setting up the first formal banking institutions in India, foreign banks have made considerable contribution to the banking sector over the years by bringing capital and global best practices as well as grooming talent.

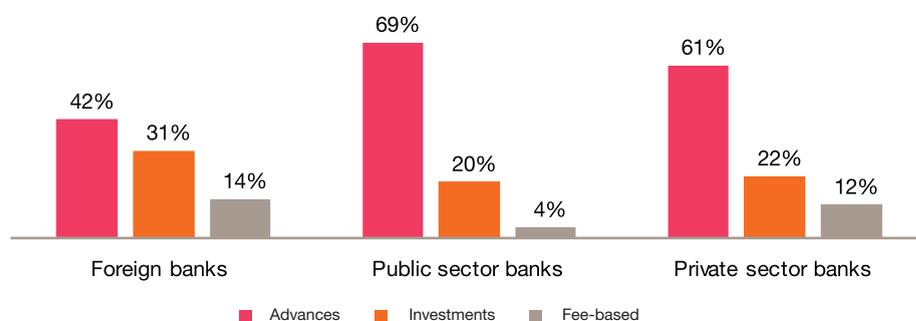
Foreign banks have been innovative in identifying specific needs of the market, creating products, and developing organisational constructs. A good example is the cash management offering in the early 1990s, that targeted inefficiencies in cash collection and check processing, identified as a specific issue for the Indian market. Built around this were products such as Citicash and Citicheck. More importantly, the bank had a dedicated division in the organisation to address the needs of this market and after a successful stint in India, the product was successfully introduced in other emerging markets. There are many such examples, including securitisation, foreign exchange derivatives, travellers' cheques, channel financing and credit scorecards. Similarly, these banks often introduced risk management practices from their countries and were took steps to become part of the local cultural and community landscape through their initiatives relating to corporate social responsibility, sustainability, and contribution to protection of heritage buildings, local arts and crafts.

Prior to 1990s, foreign banks easily distinguished themselves vis-a-vis public sector banks. They used technology to their advantage to create and often maintain lead in premium services such as integrated cash management, private banking, 24-hour phone banking, internet banking, securitisation, forex and interest rate derivatives trading, risk management and Know Your Customer (KYC) software solutions. The first Automated Teller Machine (ATM) in the country, for instance, was set up by HSBC in 1987. This focus on innovation helped foreign banks build profitable businesses with a relatively high share of investment and fee income. (*Exhibit 4*)

In the early stages through expatriate employees, and later integrating local talent in a big way, foreign banks trained and nurtured talent in India. In the process, foreign bank executives in India have also become a rich source of talent for their global banking networks. An established global network, ability to specialise, gain access to latest developments in banking technology and services, and the opportunity to gain international experiences were key factors contributing to their talent retention.

The banking landscape changed dramatically post the entry of new private sector banks. Not only did foreign banks face competition from the new private sector banks that were often run by their own ex-employees with the opportunity to take quick decisions and upscale in a fostering environment using local technology, but also from some of the public sector banks that did well on the back of what was then called 'computerisation' and a better way of engaging with the customer.

Exhibit 4: High contribution of investment and fee income to revenues compared to domestic banks



Source: Database on the Indian Economy, RBI

2005: First roadmap for foreign banks in India

One and half decades post liberalisation, a robust regulatory framework governing foreign bank presence in the country became imperative. Twelve new private sector banks had been given licences under the guidelines issued in 1993 and 2001. Beginning with the voluntary merger of Times Bank with HDFC, consolidation of the newly licensed banks had also started. ICICI and HDFC Bank had established themselves as iconic Indian brands with scale and distribution power. Many public sector banks had been listed and the adoption of technology powered by Indian technology giants had changed the face of Indian banking considerably, putting them on a profitable growth path for the near future.

On 28 February 2005, the RBI released a roadmap for the presence of foreign banks in India along with guidelines on ownership and governance in private sector banks. This was indeed a watershed event as it provided the first ever documented policy on foreign banks in the country, and for the first time, spurred a debate about the present and future role of foreign banks in India.

It was also no coincidence that the guidelines on private sector bank ownership and foreign bank roadmap were released together. The press release prefacing both documents makes an interesting point about the 'need for enabling shareholding higher than 10% to facilitate restructuring in the banking system and consolidation.' Ironically, that debate remains as relevant today as in 2005, despite an Act of Parliament in December 2012 having paved the way for enhanced voting rights upto 26%.

The new private sector banks also spurred an opportunity for foreign banks and investors to participate in the Indian banking sector through equity investments. For example, ING hiked its stake in ING Vysya Bank to 44% in 2002, up from 20%, HSBC acquired 14.71% stake in UTI Bank (today known as Axis Bank) in 2003, Temasek Holdings acquired 5% stake in ICICI Bank in 2003 and later increased it to 9%, Rabobank acquired 20% stake in Yes Bank in 2004 and HSBC acquired 4.74% stake in Yes Bank in 2008.

"I would love to own a big bank in India." - Jamie Dimon, CEO, JP Morgan Chase

– Economic Times, 2011

The discussion paper proposed a gradual increase in the presence and activities of foreign banks in two phases. The period from 2005 to 2009 was to be utilised to strengthen the domestic banking sector. Special emphasis was laid on enabling Indian banks to compete in the international arena. Foreign banks were to be encouraged to grow their presence in the country post 2009.

The promised growth path and the perception of India as an emerging economic power attracted many banks to set up presence in India in the period after the roadmap.

In many ways, developments during this period and subsequent to it bear out the not-so-popular belief that despite its closed policies, India remained exposed to global turmoil. While the strict regulatory regime around derivatives and risk transfer prevented a sub-prime type of crisis, the boom in the pre-crisis period was not very different from the good times elsewhere.

Remarkably, while many foreign banks have set up branches in India, few have followed a consistent growth path over the long-term. One case in point is Bank of America, which sold a successful retail business in India to ABN AMRO Bank in 2001 as a part of its global strategy (consequent upon merger of Bank of America and Nations Bank) to withdraw from international retail operations. In 2001, RBS took over ABN AMRO Bank and the business was rechristened in India as RBS. More recently, this business has been sold to Ratnakar Bank Limited (RBL), a domestic bank. The management of RBL Bank has many of the old Bank of America senior personnel, thus marking

a full circle. This is a good example of the changing dynamics of the market, depending on local and international conditions.

American Express Bank's exit from all but the card business, Barclays Bank's foray in retail and subsequent exit from that business and some of the other banks' experiments with SME lending and exit have also attracted attention to the flux in the non corporate banking space. While the ability to enter and exit businesses is an integral part of strategic business decisions, in India, such decisions are often difficult or time-consuming to implement due to a lack of direct and unambiguous regulatory guidance.

Recent news about the surrender of their bank licences by Morgan Stanley and UBS have further added to the impression that India presents unique challenges to foreign banks. During the survey, most banks referred to the difficulty in fulfilling regulatory expectations on branches in unbanked areas and agricultural advances. Most banks were also supportive of priority sector lending in principle but felt that a flexible strategy to support agricultural lending through established institutions would be practical. So would the inclusion of infrastructure and export finance within priority areas.

Meanwhile, many banks that came to India after 2005 awaited further clarity on the roadmap, maintaining their presence and evaluating opportunities.

After much anxiety resulting from regulatory discussions around ring fencing and local incorporation, the RBI released a discussion paper on presence of foreign banks in India in January 2011.



The financial crisis of 2008 and impact on foreign banks

In the aftermath of the financial crisis of 2008, the attention of multinational banks, particularly of those with a large presence in the west, turned to their home countries as they struggled with sudden liquidity problems, many of them going to the brink. The rapid collapse of few of the most respectable global investment banks and the domino effect on the global financial system was dramatic enough to cause tectonic shifts in the banking landscape.

Although the crisis was truly global in nature, its effects on different economies were varied in impact as well as timing. After the crisis, governments and regulators launched a series of measures to restore their financial systems. This period also saw greater collaboration among regulators on the global platform and greater consensus on systemic risks, financial stability and the challenges of too big to fail financial institutions.

“Among some circles, a doubt is sometimes expressed as to whether the regulatory environment in India is liberal in regard to the functioning of the foreign banks and whether the approach towards foreign participation in the Indian banking system is consistent with the liberalised environment. Undoubtedly, the facts indicate that regulatory regime followed by the RBI in respect of foreign banks is non-discriminatory, and is, in fact, very liberal by global standards.”

– V Leeladhar, former Deputy Governor, Reserve Bank of India, 2007

Changes in global liquidity conditions as governments embarked on stimulus programmes created a fresh set of challenges and opportunities. The survival of the Indian economy in the immediate aftermath of the crisis had interesting consequences for this liquidity seeking attractive returns. After 2009, India actually granted licences to 13 new foreign banks to commence business in India. (Exhibit 5)

Western banks, battered by the global financial crisis and regulatory measures such as increased capital requirements and the pressure to de-leverage their balance sheets had to re-evaluate their investments across emerging markets. Some responded by curtailing their operations, selling off businesses and assets and trimming their exposures to countries increasingly perceived as non-core. Others withdrew all together, leaving behind advisory and capital markets activities that were not capital-intensive.

For most foreign banks, India accounts for a minor part of their parents’ books. Examining the India exposure of foreign banks in the country, 31 foreign banks had less than 1% of their global assets in India whereas Barclays, HSBC, Standard Chartered and Citibank have India exposures between of 1 to 5 % of their parent’s asset book (this is the in-country share as offshore exposure data is not available in public domain)*. This impacts the ability of the champions of long-term growth in India to build consensus within the larger organisation, often losing ground to the faster growing economies.

In some ways, the reaction of the foreign banks post-crisis bears out the worst fears that regulators in emerging economies have regarding the behaviour of foreign financial institutions as fair-weather

*Estimates based on individual bank’s financial statements, RBI data and PwC analysis

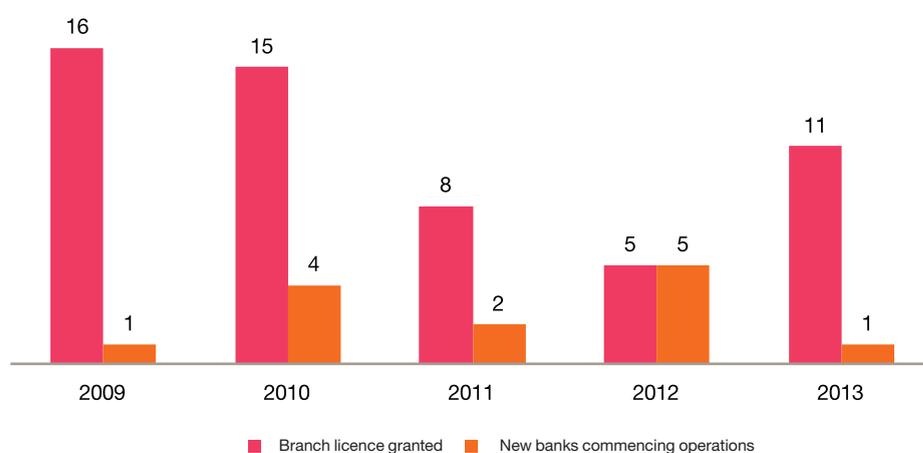
“In view of the current global financial market turmoil, there are uncertainties surrounding the financial strength of banks around the world. Further, the regulatory and supervisory policies at the national and international levels are under review. In view of this, it is considered advisable, for the time being, to continue with the current policy and procedures governing the presence of foreign banks in India.”

– Dr D Subbarao, former Governor, Reserve Bank of India, Annual Policy Statement for the Year 2009-10

friends. Although the withdrawal of foreign banks from India has not created a dramatic impact unlike in the Asian or Latin American crisis, the memory of banks withdrawing from the economy lingers with regulators and the public. Consequently it is often not easy to re-enter the market.

Of course, in the Indian context, due to specific Foreign Exchange Management Act (FEMA) and banking regulations restrictions on capital repatriation and liquidity management, the withdrawal was not disruptive. Nevertheless, this led to further tightening of liquidity and capital guidelines and prompted discussion around systemic risk management and local incorporation of foreign banks, eventually culminating in the discussion paper on presence of foreign banks in India in January 2011.

Exhibit 5: Branch licences granted to new and existing foreign banks in India



Source: Database on Indian Economy, RBI, PwC

Does the 2011 discussion paper signal a new era?

The discussion paper began with an obituary to the second phase outlined in the 2005 roadmap. The onset of the financial crisis had distorted the world envisioned six years ago, into something new and uncertain. The RBI's conservative stance and its successful defence of the Indian banking system in the face of the global meltdown created greater confidence in the system. The global financial crisis shattered the confidence in the ability of developed markets to regulate their global financial institutions. This created the need for emerging markets to protect their own markets from systemic risk of failure of global institutions.

The paper dwelt on the benefits of ring-fencing of capital and liquidity in times of crisis and acknowledged that foreign banks would need some incentives to incorporate locally. Greater expectation of local risk management, data aggregation and reporting under the subsidiary mode and the enhanced role of local and independent directors in decision-making concerning the India subsidiary were detailed. Interestingly, the discussion paper did not propose the same framework for priority sector lending (PSL) for foreign bank subsidiaries, acknowledging their role as primary providers of export finance. It laid out a simpler PSL requirement, including mandatory financing to agriculture (10%) and small enterprises (10%), but allowing export to fulfil the remaining 20%.

The feedback to the paper was largely apprehensive in tone. What will the comfort letter mean? How will lack of parental rating impact? How will banks access the hinterland or distribute assets to agriculture sector or small enterprises? Will subsidiaries be asked to divest mandatorily? The answers were not immediate as the economic conditions began to change soon after.

Hitting the headwinds after 2011-12

If there were any doubts regarding the continuation of the 'coupling' of economies, they have been dissipated by the events in the last couple of years. With a lag, the Indian economy also started showing the results of the slowdown and macroeconomic indicators caught up with some of the structural issues with the

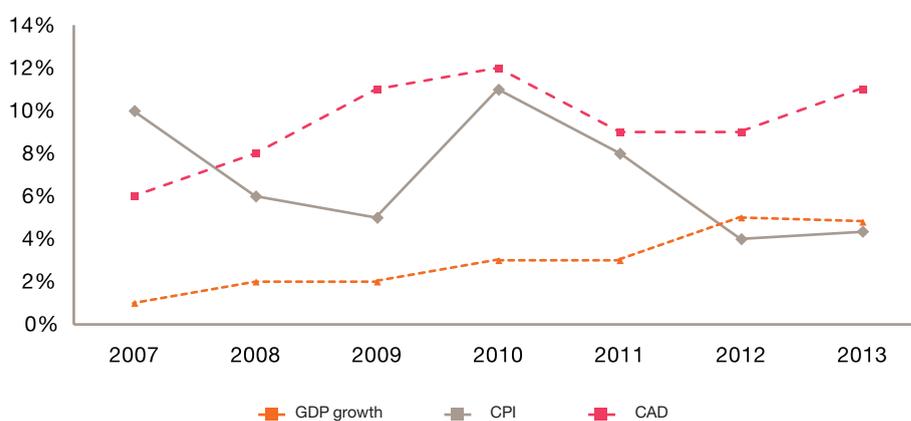
economy. This was somewhat expected as the increased liquidity from the developed economies initially buoyed up the emerging markets and the subsequent adjustments, coupled with slow recovery in the western markets began to play their course. (Exhibit 6)

For India, all this also came in the backdrop of an upcoming election, fiscal imprudence as well as negativity generated from widely reported retrospective changes in tax laws, rating downgrade fears and reports of violence and poor social and physical infrastructure.

Another relevant event between the

discussion paper and the final guidelines was the release of The Nair Committee Report on PSL in 2012. Marking a break in thinking, the committee recommended that Wholly Owned Subsidiary (WOS) of foreign banks be brought on par with domestic banks. Although recommendations of the Nair Committee were only partially accepted, foreign banks with more than 20 branches in India were brought on par with domestic banks for PSL compliance purpose. However, banks with less than 20 branches were allowed to continue with fulfilling 32% requirement largely through export finance.

Exhibit 6: India- macroeconomic indicators in the post crisis era



Source: IMF, Database on the Indian Economy, RBI

"In India, the fallout from recent financial stress has likely contributed to greater vulnerability of corporate and bank balance sheets and a further downward revision of growth forecasts, which were already very low in the historical context.

This reflects persistent supply constraints and slow progress on structural reforms. Despite weak demand, however, food prices will likely keep headline inflation close to double digits"

– IMF, Asia and Pacific region Economic Outlook Update, October 2013

"Currencies and bonds in Brazil, India, Indonesia, South Africa and Turkey came under intense weakening pressure since May as their current account deficits persist, inflation remains elevated, and monetary policy room seems limited in the face of decelerating growth"

–IMF, Global Financial Stability Report, October 2013

Scheme for subsidiarisation of foreign banks in India: Is it the end of the wait?

Given the backdrop of the 2014 general elections and the uncertain macroeconomic environment, the timing for the release of the scheme for subsidiarisation could have been better. According to this document, foreign banks present in India prior to 2010 will have the option to subsidiarise or continue to operate as branch. Given the macroeconomic and political condition as well as uncertainties of global economic recovery, this must be a welcome relief.

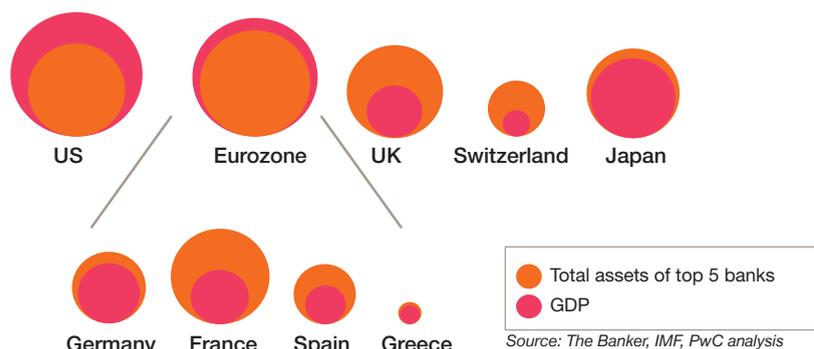
To banks that gave an undertaking to convert into subsidiaries, the change in the economic environment must appear stark and the lack of flexibility, difficult. Also, some of the parameters described for mandatory conversion into subsidiary are somewhat subjective and therefore clarity will emerge with time.

Interestingly, Indian banking regulation makes it mandatory for banks to transfer parts of profits to reserves. Repatriation of such profits to the head office requires RBI approval. Both before and after the financial crisis, regulations have been issued under FEMA and the Banking Regulation Act to restrict cross border movement of liquidity. These measures limit the likelihood of free capital repatriation to parent by branches. In countries with relative ease of capital movement, this is one of the important tenets driving the agenda on local incorporation.

The other genuine concern that regulators have developed based on experience is the dominance of the banking system by foreign banking organisations; thereby increasing vulnerability of the domestic financial system. This is apparent from the stated intent to curb growth beyond 15% of assets and 20% of capital dominance. However, the measures to curb further growth (specific approval for new capital infusion in WOS and limiting the number of branches of new banks) do not appear to incentivise the WOS mode as constraints apply to WOS growth and new banks, but not to existing banks operating in branch mode.

And yet, the scheme creates an opportunity for foreign banks to grow in India in almost the same way as domestic banks. This makes it worth examining the possibilities and business impact of local incorporation. In the following sections, we examine some aspects of the new framework that is likely to unfold as the scheme is operationalised and clarity emerges on some of the other regulations in the pipeline.

Exhibit 7: Banking assets vs GDP



Global rebalancing of capital

Fast growth in global finance in the pre-crisis era led to the emergence of really large banks, particularly in Europe. For instance, in many European countries, the asset size of the largest banks is greater than the GDP of the country. (Exhibit 7)

Hence, it is not surprising that the reform in Europe is leading to the deleveraging of these banks. Similarly, in the US, bailouts and subsequent attention on banks has limited the capacity of most banks for aggressive international expansion. While the European Union (EU) and the European Central Bank (ECB) are still to close the chapter on post reform banking regulations, clearly the discomfort with too-big-to-fail banks is here to stay.

On the other hand, many Asian economies and Australia were largely unaffected by the crisis, many having surplus capital that needs to find its way offshore. The oil-producing Middle- Eastern countries have also weathered the storm well and have provided capital to many of the banks.

Rebalancing of global capital, greater trade interconnectivity of Asia, Africa, Australia and the Middle East, migrating populations and geopolitical realignment are likely to lead to changes in the foreign bank landscape in India, and the window of opportunity to grow as a WOS may be an important strategic imperative in that context.

This trend is evident from the fact that of the 75 new bank branches granted to

foreign banks since the financial crisis, approximately 40% are new foreign bank entrants. After the financial crisis, 13 new foreign banks have been granted licenses by the RBI, which include five Asian, four Australian and two European banks.

Retail and inclusive banking vs differentiated banking

The discussion paper articulated the preference for retail banks over 'niche' banks. While in reality, only few foreign banks offer full suite retail services, due to the regulatory expectations, all foreign banks operating in India need to offer retail liability and basic banking products.

In most countries, regulation for retail deposit accepting banks is more stringent than regulation for banks that offer limited facilities to non retail clients. In India, on the other hand, incentive (in the form of branch licences that are discretionary) is tagged to retail banking.

In August 2013, the RBI released a discussion paper on banking structure in India, wherein, among other things, the discussion on differentiated licensing has been initiated.

This will be an important step in the right direction to create the right structure for aspiring retail banks that are likely to grow as subsidiaries with large branch networks as against banks whose business models are suited to niche activities with limited growth ambitions and limited capacity to create systemic risk.



Summary of the RBI guidelines on WOS

1. Banks commencing business before Aug 2010 – Conversion optional
2. Banks commencing business after Aug 2010 – Conversion mandatory on conditions being applicable
3. Future entrants – Principles of single mode of presence and reciprocity to continue for both branch and WOS mode of entry; in addition, if conditions are applicable, mandatory WOS

Conditions

- Bank home country gives preferential claim to domestic deposits in winding-up proceedings or has inadequate disclosure requirements or has unsatisfactory supervisory arrangements
- Bank has complex structures or is not widely held or is systemically important in the Indian banking sector
- Bank becomes 'systemically important' in India i.e. its total assets* comprise 0.25% or greater of total assets* of the Indian banking sector

**On balance and credit equivalent of off balance sheet*

| | Final guidelines |
|---------------------------------|--|
| Minimum capital requirement | INR 5 billion |
| Minimum CRAR | 10% |
| Priority sector lending targets | 40% with five year transition period |
| Raising of funds in India | Permitted to raise non-equity INR resources, may list in three years Use of parent credit rating not permitted (except for custodial services and international operations), 'letter of comfort' required |
| Branch licensing | At par treatment with domestic banks with some 'restricted' sensitive areas |
| Board of directors | Minimum 50% Indian resident directors and minimum one third independent directors, minimum two-third non-executive directors |
| Unbanked and rural branches | 25% branches in unbanked, rural areas |
| Mergers and acquisitions | Foreign banks WOS may be permitted |
| Taxation | Specific provision created regarding applicability of section 50(B), transfer pricing, VAT, service tax, deductibility of expenses on conversion and state stamp duty acts |
| Measure to control dominance | Further growth may be restricted if foreign banks collectively achieve 20% of capital and reserves (against current 16%) of the banking system and foreign bank branches achieve 20% of total assets (on and off balance sheet) of the banking system. |

Organic growth: The twin challenges of near national treatment and reciprocity

Under the current branch licensing regime, each branch location is approved by the regulators. In the last few years, foreign banks have found it difficult to get additional branches in metropolitan centres and have been able to find business opportunities in smaller centres.

Yet, foreign bank branches remain concentrated in the metropolitan centres of Mumbai, Delhi, Kolkata, Chennai and Bangalore. Only eight foreign bank branches (out of 334) are located in the rural areas, as against 250 in the metropolitan areas. (*Exhibit 8*)

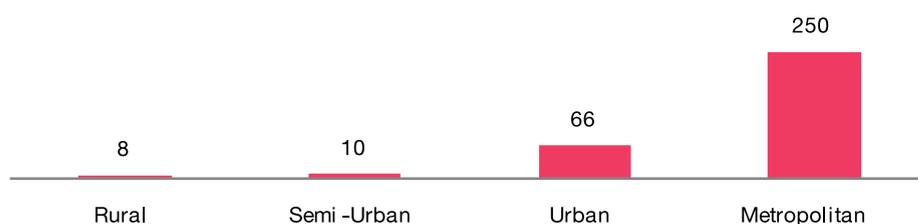
The new scheme opens the field for foreign banks to access the automatic approval to open branches (except in specified sensitive areas). It also brings with it the challenge of managing the operating model of having 1:1 branch ratio between urban and other centres and having to branch out to unbanked areas with less than 9,999 people (often with little physical infrastructure).

Some of the foreign banks operating in India have the experience of banking in rural, semi-urban or inaccessible geographies in their own countries. Some have successfully leveraged mobile or internet technology to completely cut out brick-and-mortar branches and attendant costs and constraints.

Under Indian banking regulations, while distribution of assets is possible through agents, distribution of liability products requires creation of client touchpoint through branch or Banking Correspondent (BC), which must be within specified radius of 30 kms of the branch. As the competitiveness in the banking sector grows, there is likely to be increasing demand for liberalisation of norms in this area. It is interesting to bear in mind that in the long-term, the incentive in the form of brick-and-mortar branches may not remain an incentive.

Also, it is unclear how reciprocity will play out for foreign banks choosing to incorporate as WOS if Indian banks have not had the opportunity to grow in their home territories. The likelihood of bilateral agreements allowing preferential treatment will change the nature of foreign bank segment by allowing banks from countries with bilateral agreements to grow at a faster pace than that possible for foreign banks in general.

Exhibit 8: Foreign bank branches by population centre



Source: Bank Branch Statistics, Database on the Indian Economy, RBI

Inorganic growth: Better visibility, but uncertain timeline

Inorganic growth opportunities via acquisitions will be important for foreign banks going forward, because they may find it difficult to build organically under the new branch licensing formula and also, because once consolidation in the banking sector kicks in, being excluded from inorganic opportunities could mean further competitive disadvantage.

While the scheme does not provide full clarity on the timeline within which foreign banks may be allowed to acquire a bank, it signals clearly that such acquisition is possible in the near future. Unfortunately, for those banks that need to make a decision to incorporate in the short run, this lack of clarity is problematic.

Another important issue relating to inorganic growth is the misalignment of shareholding with voting rights. The Banking Regulation Amendment Law of December 2012 allowed for the alignment of shareholding with voting rights within the limit of 26%. However, the RBI circular on bank ownership continues to be in force with restriction on voting rights upto 10%. This makes acquiring control in a bank difficult. This also may be a reason for the unattractiveness of the option to dilute or list locally.

Incidentally, most banks that have gone through mergers and acquisitions globally have found it challenging to effect such mergers in India for their operating branches. Some banks have not been allowed to use branding consistent with new global branding, while others have found it hard to exit portfolios or buy India businesses of seller banks in the global transaction.

Banking and technology

In the midst of rising costs and increasing regulatory and political pressure to expand banking access to rural areas, foreign banks are also experimenting with partnerships and the use of different forms of technology for providing banking

services. Globally, banks have started to move beyond the branch, and in some cases, the ATM formats, and have begun to deploy banking services via channels that promote flexibility and mobility.

Technology as value driver

On the distant horizon, disruptive technology seems to emerge as a challenger to the long-term sustainability of banking as the world has known it so far. Yet, in India, concerns around operational and systemic risk from non-bank operators will continue to make banks important partners to innovative technology companies for mutual benefit. The regulatory preference for banks as better regulated and therefore safer vehicles for financial services will continue to work for banks for the foreseeable future.

The current wave of technology integration in banking services has also been spurred by growing consumer expectations and fast adoption by a younger, more tech-savvy generation. A survey by PwC titled '*The New Digital Tipping Point*', presents interesting trends about growing consumer appetites for banking through alternative channels across developed and emerging economies. For instance, on an average, a little over 50% of the consumers in India reported having used mobiles to purchase financial products, while 70% used the internet to do the same.

While non-touch consumer acquisition continues to be constrained, many other technological capabilities, often developed for the uniquely Indian situation, are likely to help banks deal with the issue of growth. For example, banks and other non-bank players have started deploying white label ATMs and mobile Point of Sale (PoS) systems such as micro-ATMs that can be operated by business correspondents, and provide basic banking services to the rural customers. Similarly, e KYC and the gradual convergence of KYC requirements across financial services intermediaries may lead to more sustainable customer acquisition models.



The Bharat challenge or the Bharat opportunity?

India's focus on financial inclusion and the growth pattern of the Indian economy makes it directionally clear that to grow significantly in India, banks will need to come up with a sound strategy for expanding the reach of financial services. Meanwhile, the differential licensing regime may open the window for foreign banks to bring their specialised service offerings and focus on their core business and clientele. This will, in many ways, also align the banking structure better with the nature of the Indian economy that tends to have demand for high-end global products as well as large, low-value, high-volume business. The push for the second wave of banking reforms will come from the critical need for funding large infrastructure projects on the one hand (hence developing a bond trading market) and providing simple access products to households on the other.

It will be interesting in that scenario to witness the growth of competition from domestic players in niche segments, where business models so far have been fairly standard and undifferentiated. Foreign banks can play a significant role in providing the capital, knowhow and the energy required to kickstart a differentiated banking sector with foreign and domestic (and maybe joint venture) entities that best matches the demand of the diverse Indian economy.

In the retail banking space, there is a remarkable role reversal compared to the early years of post liberalisation, when private sector banks looked to foreign banks for best practices and human resources. Many of the new foreign banks now look to the new private sector banks for talent, particularly in the retail space and business models in the small business and agri lending space.

Increasingly, the financial inclusion mandate will require creative thinking. Portfolio purchases, securitisation, customised risk models for the financially excluded market, non-branch distribution and origination formats will all require collaboration with innovative technology and payment solutions companies or other banks and financial institutions such as microfinance and non-bank finance companies.

Amidst concerns of high inflation, lower growth, high Current Account Deficit (CAD) and threats of rating downgrade, it is an uncomfortable time to take long-term decisions on entity structure or growth. Yet, the long-term outlook on India, geo political realities and the likelihood of banking reforms make it difficult to stay away and wait. For foreign bankers leading big or small banking businesses in India, the heat in the global boardrooms is increasing, especially amidst talks of Chinese reforms, Indonesian growth or cost competitiveness of Philippines for BPO services.

Increasing competition amidst shrinking growth, small pool of credit-worthy and well-governed clients, high incidence of financial crimes, concerns around data protection and malpractices, heightened responsibility for Anti Money Laundering (AML) compliance within a wider economy with high levels of unaccounted wealth and increasing cost of operations will continue to keep foreign banks operating in India on their toes.

Yet, this is just another stage in the long journey and partnership that these institutions have with this country of tremendous potential, diversity, colour and charm. As the foreign banks and the Indian economy adapt and change and diversify, the bonds will only grow stronger.

“As major foreign banks specialise in the provision of a menu of sophisticated financial products and also facilitate in the flow of foreign capital, their larger presence will meet the requirements of a growing and vibrant economy.”

-Banking Structure in India: Way Forward, Reserve Bank of India Discussion Paper, 2013



| | |
|---|---|
| <p>Indonesia</p> <p>Foreign banks share of banking sector assets – 32%</p> <p>Financial literacy and accessibility mandates for domestic banks</p> <p>Differential licensing regime based on capital conditions</p> <p>Foreign ownership in domestic banks permitted up to 40%</p> | <p>South Africa</p> <p>Foreign banks' share of banking sector assets – 22%</p> <p>Differential licensing regime based on activity</p> <p>100% foreign ownership permitted in domestic banks</p> <p>Inclusive banking requirements are made of domestic banks, and foreign banks are largely confined to corporate and wholesale lending</p> |
| <p>Brazil</p> <p>Foreign banks' share of banking sector assets – 22%</p> <p>'Ear marked credit' akin to priority sector towards agriculture, housing loans and microcredit for domestic banks</p> <p>Differential licensing regime based on ownership and activity</p> <p>100% foreign ownership permitted in domestic banks</p> | <p>China</p> <p>Foreign banks share of banking sector assets – 2%</p> <p>Reciprocal arrangements for foreign banks to develop regional banks and participate in the equity of development banks</p> <p>Foreign ownership allowed up to 20% in domestic banks, without control</p> |
| <p>Turkey</p> <p>Foreign banks share of banking sector assets – 14%</p> <p>Financial literacy and access programmes mandated for domestic banks</p> <p>100% ownership permitted in domestic banks</p> <p>Differential licensing based on activity - investment banking, deposit banking, Islamic banking</p> | <div data-bbox="825 1543 1428 1736" style="border: 1px dashed red; padding: 5px;"> <p><i>"Foreign banks—including HSBC Holdings PLC, Citigroup Inc., Standard Chartered PLC, and the Australia & New Zealand Banking Group Ltd.— have flocked to China to set up rural operations, aiming to capitalize on Beijing's drive to boost incomes in the countryside" – Wall Street Journal, 8 Mar 2012</i></p> </div> <div data-bbox="254 1772 790 2013" style="border: 1px dashed red; padding: 5px;"> <p><i>"In July 2012 Bank Indonesia (BI) reduced the stake that any single foreign shareholder can acquire in a local bank from 99% to 40%, while dropping the cap for domestic bank ownership to 30% and 20% for local individuals" – Asia Money, 25 Sep 2013</i></p> </div> <div data-bbox="825 1772 1428 2013" style="border: 1px dashed red; padding: 5px;"> <p><i>"...yet more evidence of how hot (Turkey's) banking assets have become. Deals have multiplied over the past year.. the country is one of the few in Europe that is growing. Istanbul, Turkey's commercial centre, is making a bid to become a financial hub, with its own version of Canary Wharf being built on the Asian side of the Bosphorus." – The Economist, 18 May 2013</i></p> </div> |

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- HSBC (<http://www.hsbc.com/about-hsbc/history>),
- JP Morgan (<https://www.jpmorgan.com/pages/jpmorgan/ap/in/home>)
- Standard Chartered Bank (<http://www.standardchartered.com/en/resources/global-en/history-timeline/index.html>)

How banks responded to our survey



Methodology

We interacted with and interviewed 32 foreign banks using a comprehensive questionnaire. Thirty-three questions were divided in the following five broad groups:

- Market environment
- Strategy and growth
- Technology
- Risk, regulation and taxes
- Human capital

We received relevant responses from most of the banks that we interviewed. However, at times, banks chose not to respond to some questions or were unable to provide accurate data. This has been noted where applicable.

Results have been compiled and analysed by PwC using the weighted average method where applicable.

The survey results have been appropriately complemented with views and insights shared by banks during our conversations. Recent developments and our point of view on themes have also been included under each section.

Section I: Market environment

Financial service institutions are struggling to sustain their profitability and build a viable business model in today's complex business environment. Banks in particular are rethinking their strategies and treading the path of innovation in order to gain a competitive edge in an industry marked by changing consumer behaviour and increasing 'activism' by regulatory and tax authorities.

Which are the major factors that will have an impact on the Indian banking industry and on the foreign banks?

It is no surprise that the survey results indicate regulatory challenge as the foremost concern for foreign banks today, given the plethora of regulatory changes in home and host countries. This is followed closely by political and social stability. There is a high level of concern on increasing social inequality and unrest, but the greater concern comes from the apprehension of political instability. Uncertainty resulting from a potential lack of clear majority of any one political party in the upcoming elections underpins apprehension regarding the direction of policies and governance in the nation. Several respondents also ranked competition among their top three concerns impacting the banking landscape. This assumes significance in the backdrop of new bank licences to be given to NBFCs and industrial houses under the licensing policy announced in early 2013.

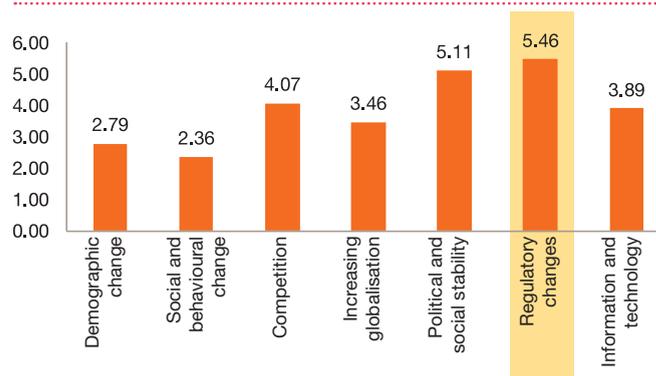
Has the perception of India as a growth story changed over the last few years?

Most of the respondents ranked China as the emerging investment destination, followed by South East Asia, Middle East and India.

Interestingly, as per 'Choosing China: Improving the investment environment for multinationals', a survey by PwC and the China Development Research Foundation, launched in Beijing, more than half (56%) the CEOs surveyed chose China above other major and emerging economies including Brazil, Russia, India and the US.

Most respondents, while acknowledging the importance of China also shared apprehensions about the sustainability of the China story and confidence in the India story in the long term. However, due to lack of short-term growth opportunity in India, the results were weighted in favour of other, faster growing economies.

Exhibit 9: Factors impacting the Indian banking industry



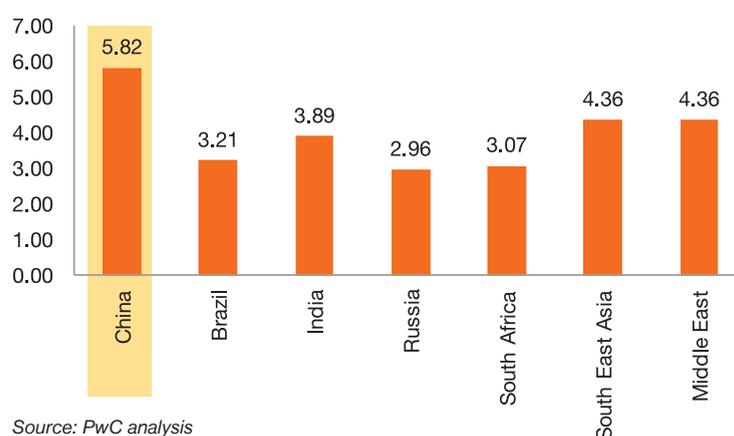
Source: PwC analysis



41% of respondents rated regulatory change as the topmost concern for their bank.

33% said that political stability was their prime concern.

Exhibit 10: Relative attractiveness of economies



Source: PwC analysis



88% of respondents ranked China as the most preferred investment destination.

12% of respondents ranking south-east Asia and the Middle East as the most attractive. None of the respondents felt that India was the most attractive investment destination.

What does your bank find the most difficult aspects of the Indian banking industry?

The sensitivity to the regulatory environment and inability to differentiate are related to each other, with high-ranking political uncertainty arising from short-term worries related to the forthcoming election and the uncertainty of policy direction. As competition intensifies, it becomes imperative for financial services providers to differentiate their offerings and garner a sticky client base. Banks are caught in a pincer situation here, on the one hand, the number of corporates with internationally accepted credit and governance standards has not grown and on the other hand, regulatory expectations of retail banking, liability side restrictions and financial inclusion has led to commoditisation of offerings.

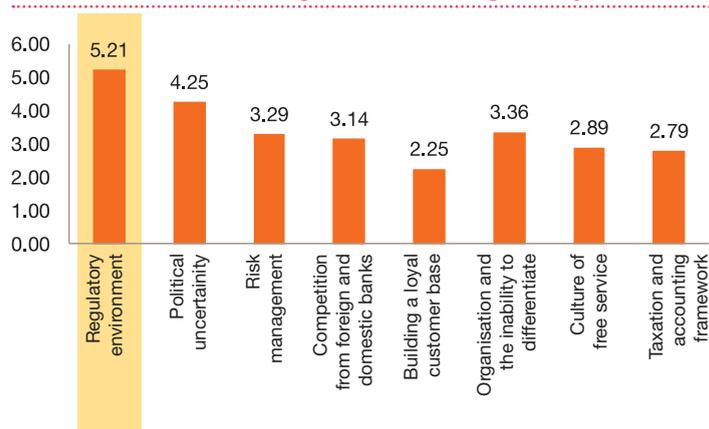
The above parameter evolved out of our early conversations with banks. Some banks strongly felt that the culture of 'free service' and the inability to price was a constraint to growing retail banking. Given the limitations on branch expansion, some of the respondents felt that innovation with different distribution models using technology could be a differentiator for foreign banks. Some banks also felt that differential licensing, when it happens, can help create the differentiator. It was interesting to note that building a loyal customer base ranked low on the challenge barometer, which indicates that in all likelihood, foreign banks are confident of sustaining their share of customers.



48% of respondents ranked regulatory environment as the most difficult aspect of the banking industry.

19% said political uncertainty was a key challenge.

Exhibit 11: Factors impacting the Indian banking industry



Source: PwC analysis

In conversation

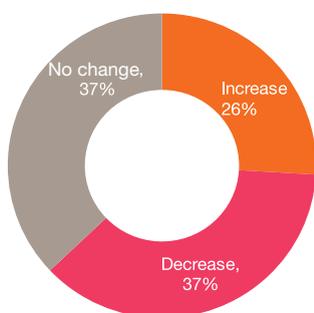
- Although it is true that India is a large growth market, the macroeconomic, regulatory and policy environment make it difficult to harness the potential of this market.
- BRICs are slowly and steadily losing their attractiveness, with new economies such as Indonesia, Mexico, Turkey, Cambodia and Vietnam becoming attractive. Foreign investors' faith in the certainty of political environment has reduced.
- China appears to be the preferred destination at this point of time.
- India is an important market in the region that cannot be ignored.



Section II: Strategy and growth

Some of the key factors that business leaders need to keep in mind while formulating their business strategies are social and demographic trends, changes in customer behaviour and preferences, emerging technologies and their use, changes on the regulatory front, etc. Business models are undergoing a continual revamp to accommodate changes in the fast-paced environment and business expansion plans are being tailored to match the market scenario.

Exhibit 12: Will the aggregate market share of foreign banks in India (vs. local banks) continue to increase, stay the same or decrease?



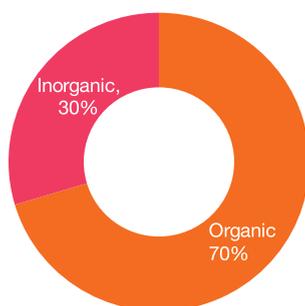
In the context of new domestic banks on the horizon, it was not surprising that 37% of the respondents expected status quo and another 37% expected decrease in market share. It is interesting that most respondents brought up the issue of realignment of the India strategy to do more offshore funding in view of the liberalised ECB norms and the ease of operation in dealing with Indian corporates from offshore. Respondents who were positive about market share increasing were a mere 26%.

Subsequent to our data analysis, the RBI released the framework for setting up wholly owned subsidiaries (WOS) by foreign banks in India. However, while the goalpost seems clear, the details still need to be evaluated in order to assess the impact these guidelines will have in the short-term.



The recently released WOS guidelines provide foreign banks with the option to open new branches, thus increasing the depth of their business in India, list on Indian exchanges and enter into M&A with private sector banks, subject to the overall investment limit of 74%.

Exhibit 13: Given the opportunity, what would be your bank's primary method of expansion in India?

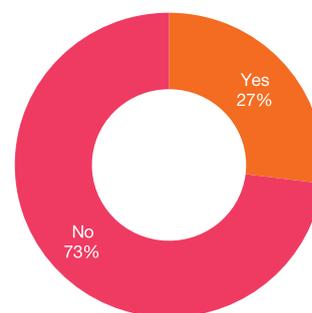


Although the banking industry is expected to go through a phase of consolidation, most respondents said that they would strengthen their presence in the country by way of organic growth focussing on their topline growth and improve profitability. Some respondents felt that it was not an easy task to grow organically in markets such as India and inorganic strategy would be preferred. However, there can be no compromise on control in case of inorganic growth. Given the current voting rights cap of 10%, immediate interest in inorganic growth was not as high as expected. Some of the foreign bank participants were open to both strategies-to grow organically as well as through acquisitions.



As per the new guidelines, foreign banks that choose to adopt the WOS model will be permitted to enter into mergers and acquisitions with Indian banks, which may present wider prospects for inorganic growth. However, this will be subject not only to regulatory approval for the transaction, but also to an assessment of the overall foreign bank participation and its success in Indian banking sector.

Exhibit 14: Do you think foreign banks in India operate on a level playing field?



Respondents strongly felt that there is an absence of a level playing field for foreign banks in India. While they showed an understanding of the facilitative environment in terms of access to products or clients, the perception of non level playing field was largely driven by constraints on branch growth. Many of the foreign banks that have entered the country post-2009 feel that they can never match up to the distribution strength of Indian banks or for that matter foreign banks that have grown over the years in different regulatory regimes.

While the final guidelines on the operations of foreign banks in India are expected to bring them more or less on the same footing as domestic banks, providing them with near national treatment; foreign banks may have other issues relating to priority sector lending and inclusion as detailed in Chapter I.



The WOS guidelines released recently have come a step closer to providing foreign banks with a level playing field to be at par with domestic banks in terms of branch network and access to local markets. However, the same comes with greater commitment to financial inclusion.

How does your head office perceive the India strategy?

India emerged as a major destination for the outsourcing of banking activities, starting with the ubiquitous call centres of the 1990s. It capitalised on its inherent advantages of a large English-speaking population, cost competitiveness vis-a-vis the West and its reputation as the emerging technology giant. Over time, the cost competitiveness has reduced due to increasing power costs, escalating wages and competition from other geographies such as Philippines and China.

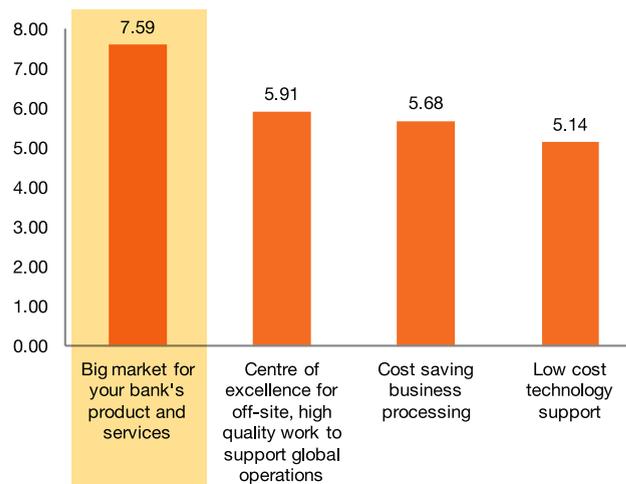
With better recognition of the quality of talent available in India and the emergence of new technologies such as social, mobile, analytics and cloud (SMAC), the outsourced activities moved up the value chain. Doing proprietary work in these areas rather than utilising the third-party channel has proved to be more effective and profitable for banks. Also, over time, the business model of banks has evolved from a service-delivery model to undertaking core operations, and routine and standardised work being outsourced to IT firms, which also reflects in the changing profile of captives.

Although the captive strategy is an important part of the India strategy for most foreign banks, a strong vote towards India being an important market for their products and services also reflects the recognition of the potential of this economy to the long-term strategies of banks.

What were your major revenue growth areas in the past 12 months?

The results were not surprising. The most profitable areas of growth for foreign banks in India have been earnings from foreign exchange and corporate lending. While deposits and investment products were found to be an area of growth, private banking emerged as the least area of focus, reflecting the plain vanilla nature of the wealth management market and the AML and financial fraud challenges. As expected, generating foreign currency deposits from remittance corridors is an important part of the deposit strategy.

Exhibit 15: Perception of India strategy



Source: PwC analysis

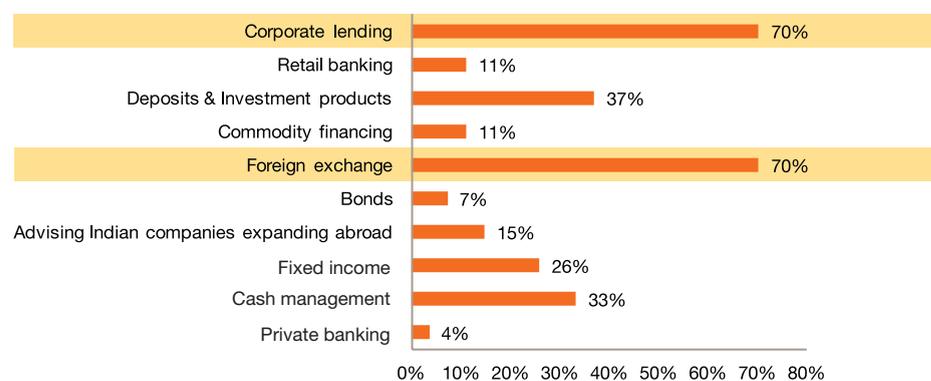


Around 70% of respondents perceived India to be a huge market for their bank's products and services. Interestingly, perception of India as a low-cost technology support for global operations ranked very low for most respondents.



Contrary to the trend of shutting down captive centres back in 2008 and 2009, most of the foreign banks are now focussing on scaling up their operations by expanding their captive bases here in India. The captives are slowly and steadily gaining critical importance in doing quality work and proprietary assignments on investment banking, consumer banking, risk management, anti money laundering, transaction services, etc.

Exhibit 16: Major revenue growth areas



Source: PwC analysis



70% respondents agreed that foreign exchange and corporate lending were major areas contributing to growth of the foreign banks.

What wholesale products do you see becoming increasingly important in the Indian banking industry in the next three years?

Most respondents felt that trade finance and ECB were going to be important over the coming years, followed by debt capital markets. The offshore book comprising trade finance and ECB is in many ways the most distinctive feature for foreign banks and one that sets them apart from domestic banks. For many small foreign banks, the expansion of onshore business is dependent on the quality and quantity of leverage that the onshore branch provides for this core client group. With more globalisation and higher trade, this is likely to continue. This expansion will continue to help foreign banks in another area of traditional strength, i.e. treasury products.

Almost all respondents felt that India's need for massive infrastructure and the policy initiatives around creating conducive financing products will lead to the development of debt markets and segments of banking such as structured finance and project finance will grow for banks in India. Urbanisation, greater inclusion of non-urban centres in the mainstream economy and a move towards a 'less-cash' economy will all provide a high degree of opportunities in cash management, another area of strength for many foreign banks.

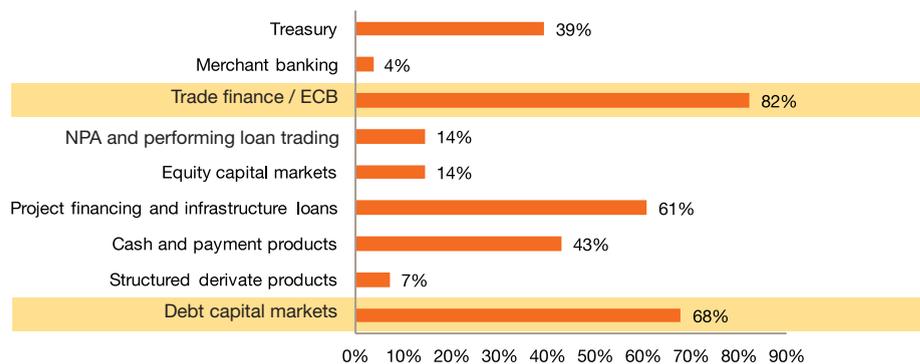
Which product areas do you see becoming increasingly important in the Indian retail banking industry in the next three years?

Changing societal norms, including a move towards nuclear families and the trend to buy homes on long tenure mortgages, coupled with a young population will make the home loan market a consistent growth area for a generation of bankers in India. More young entrepreneurs and second- and third-generation wealthy clients will mean better opportunities for banks targeting high-net-worth individuals through innovative products such as art that diversify their portfolio. Surprisingly, most respondents felt that credit cards were not a growth product, based on past experience and the hugely 'cash based' nature of the economy.

In your pursuit of growth, which customer segments will you expand over the next three years?

The client base of most foreign banks is concentrated around leading multinational corporations, large financial

Exhibit 17: Products gaining importance

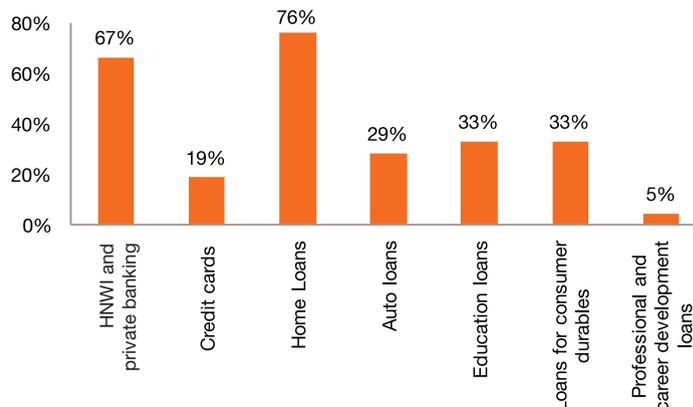


Source: PwC analysis



82% of respondents foresee that products such as trade finance and ECB will strengthen in the marketplace, followed by development in the debt capital markets.

Exhibit 18: Products in the retail banking industry

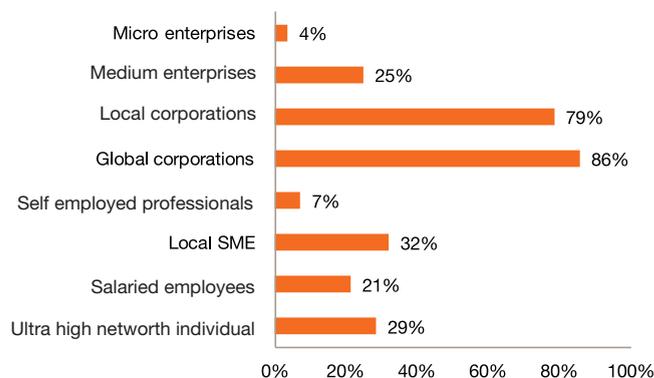


Source: PwC analysis



Foreign banks operating in India are perceived to create synergies between wealth management and investment banking.

Exhibit 19: Expansion of customer segments



Source: PwC analysis

institutions and ultra high-net-worth individuals. Therefore, it was hardly surprising to find them voted as future growth segments. It was reassuring to see that local corporates came a close second not only as an indicator of the clout of local corporations, but also of a clear shift in strategic thinking on behalf of foreign banks operating in the country.

Few respondents felt that their banks would continue to primarily target customers from their home countries and their constituents. Most revealed an open mind to dealing with local corporations and SMEs. However, most also expressed concerns of credit risk while dealing with micro and small enterprises, which is a part of the future growth strategy under priority sector norms.

Section III: Technology

In the initial phase of their growth, foreign banks differentiated themselves in the emerging markets on the basis of better technology and processes, leading to higher efficiency and the ability to generate improved profitability. New private sector banks have been quick to catch up and often had the advantage of leapfrogging with new, integrated technology platforms. What made it worse for many foreign banks was that they were essentially set up as branches of different verticals operating within their global banks, with different technology platforms with many manual workarounds to generate local reporting and customer data. The Automated Dataflow projects being undertaken by banks as a result of regulatory guidelines of 2011-12 and a trend among recent entrants to set up local platforms may change the way foreign banks use technology once again.

There is little doubt that technology is going to be the gamechanger for businesses today, more so for financial institutions dealing with challenges of enhanced regulatory reporting and distribution and service to demanding customers. The world has gone digital, with the internet, mobile, social media, analytics and cloud making their presence felt in every aspect of business. As technological development gains speed and clout, the threat to organisations



While global corporations will continue to be the main customer segment, local corporations and local SMEs are very much on the agenda for foreign banks operating in India

unwilling to embrace it becomes acute.

Going digital implies that financial institutions can engage more closely with the younger generation who are tech-savvy and look to the online channel for resolving most of their queries. The online channel also showcases customer or user preferences which can be used by financial institutions for business intelligence. The rapid growth of mobiles, smartphones and tablets offers an opportunity to empower sales channels to reach markets with less penetration.

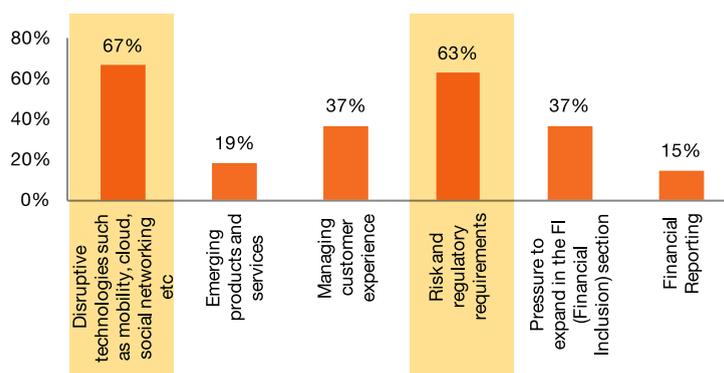
Technology in India has been responsible for overcoming physical and geographical barriers, by automating processes, enabling branchless banking and facilitating real-time service delivery across the financial services sector. The boom in mobile technology is expected to play an important role in taking banking

to India's un-banked population. Being low cost and affordable, it continues to be one of the critical pillars supporting the overall structure of the financial services sector.

Which of the following do you think will lead to innovation in banking?

Disruptive technologies in today's times have a huge role to play in accelerating the growth of the banking sector. The boom in social networking can be leveraged to a great extent by banks to increase their customer base and customer engagement. Social collaboration networks when used internally can help build a dynamic and creative work environment. They can enable organisations to instantly perceive the pulse on critical organisational issues and enable virtual workplace solutions.

Exhibit 20: Factors leading to innovative banking



Source: PwC analysis



77% of respondents agreed that disruptive technologies will be critical to drive innovation in the banking domain.

63% respondents felt that risk and regulatory requirements will drive innovation in the industry.



Social, mobile, analytics and cloud (SMAC) is the new buzzword across the banking landscape, professed to be a huge catalyst for growth of the banking sector as a whole.

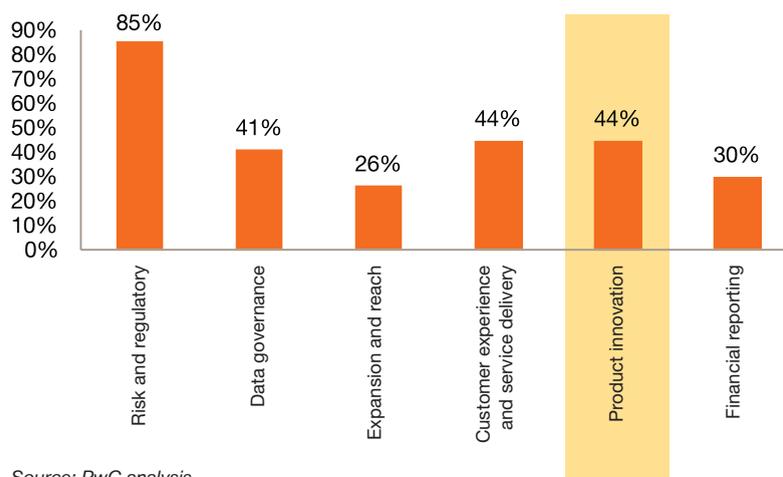
Which of the following areas is the most critical for you, requiring technology investment on a priority basis?

Not surprisingly, a large majority (85%) felt that risk and regulatory was one area where they needed technology investments on a priority basis. Such investment is already happening in response to the Automated Dataflow requirements and is expected to lead to consistency in regulatory reporting.

Product innovation and enhancing customer experience also featured high on the technology agenda of banks. This is hardly surprising as technology has the capacity to deliver an enhanced user experience, reducing the time for service delivery, bringing in efficiency in processes, and overall, providing personalised attention to customers. Customer relationship management (CRM) helps draw increased revenues from customers as it allows for the utilisation of available customer information to sell product suites across segments. CRM applications also give room to customer feedback which can help in customer retention in the face of increased competition.

Surprisingly, only 26% of the respondents felt that technology can be a driver to expand and increase reach. This could be a reflection of the rigidities in the regulatory architecture around digital growth of banks in the absence of brick-and-mortar branches (limitation on business correspondent geographical location, etc.)

Exhibit 21: Areas of investment in technology

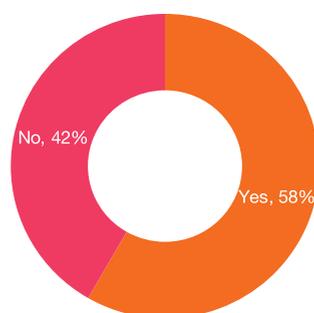


Source: PwC analysis



Subsequent to investing in risk and regulatory requirements, 44% of respondents felt that customer experience, service delivery and product innovation were areas that investment should be focussed on.

Exhibit 22: Do you have a digital strategy in place?



Around 58% of respondents confirmed that a digital strategy had been put in place to tackle the challenges of the business environment, while quite a large number, around 42%, also said that they had not thought about a strategy as yet. This could be a reflection of the fact that most foreign banks are not really present in the retail segment and do not have immediate plans to enter it.



Section IV: Risk, regulation and taxes

It has become vital for financial institutions to look beyond pure compliance concerns and understand how regulatory developments will impact product and business portfolios, how they will determine the allowable cost structure and ultimately the strategy of the organisation.

A strong regulatory framework involving effective liquidity management, enhanced risk coverage reducing leverage and the ability to identify systemic risk has become a necessary pillar of strategy for banks.

In India, regulatory focus has been twofold, reducing systemic risk by aligning regulatory agenda with the global reform agenda and ensuring spread of banking in this highly underpenetrated market. While the global reform agenda converges with most of the home countries' requirements, there are local variations to be factored in. Also, non-convertibility of the rupee and attendant requirement for banks to invest in compliance infrastructure for crossborder transactions add to costs. As banks deal with the implications of subsidiarisation guidelines, the need to comprehend impact on intra-group transactions, tax and transfer pricing implications and local ownership of decision-making and risk will place further stress on the senior management of foreign banks in India as well as in the head offices.

Basel III guidelines are being adopted by Indian banks in a phased manner, ensuring that banks will be adequately capitalised to manage all risks. These guidelines seek to enhance the quality of capital by increasing the requirement for equity capital, ensuring that banks are better equipped to deal with financial downturns, should they arise. Foreign banks typically operate at high levels of capital adequacy and that should be expected to limit the impact of Basel III in India. However, the vote may reflect anxiety on account of a lack of clarity on some implementation aspects of NSFR and LCR and the fact that many foreign banks have high ratio of off-balance sheet business.

Please rank the following factors according to the impact you think they'll have on the Indian banking industry and on the foreign banks.

We asked respondents to categorise the various types of risks into high, medium or low. Macro-economic risk and risk arising out of changing policies was ranked very high followed by regulatory risk. The profitability factor came out to be the next concern, which indicates that foreign banks in India are concerned about the sustainability of their business model in the long run. The quality of risk management and corporate governance in the industry (largely at the client end) appeared to be serious concerns as well.



In the absence of complete convergence between global and local requirements and different standards for the recognition of instruments and counterparties, foreign banks may face added complexity on compliance with capital requirements.

Exhibit 23: Does the implementation of Basel III in India impact your bank's capital?

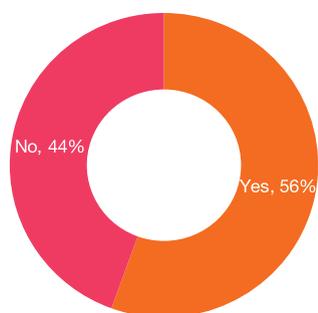
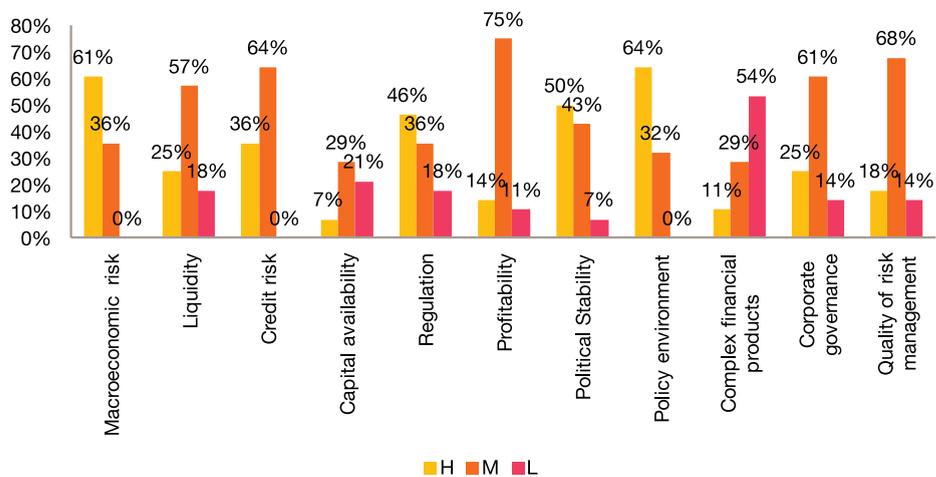


Exhibit 24: Ranking of risks in India

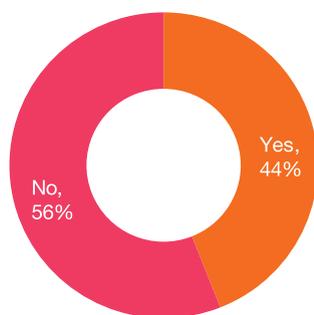


The Indian market witnessed the first rupee denominated credit default swap trade in December 2011. The initiation of credit derivative represents a form of market completion. By creating an off-balance sheet, forward and contingent markets for credit risk, credit derivatives perform a classic market completion role. In essence, this means they make provisions to achieve efficiency gains.

Credit default swaps can be actively used in the global market for better product structuring, hedging trading instruments, better asset management and the management of regulatory and economic capital.

Although 56% of the foreign banks we spoke to seemed to believe that lack of credit default swaps was not a handicap to their business, they also highlighted challenges such as lack of knowledge about the product, lack of pricing data, a shallow corporate bond market, regulatory constraints and lack of adequate systems and infrastructure to facilitate trading.

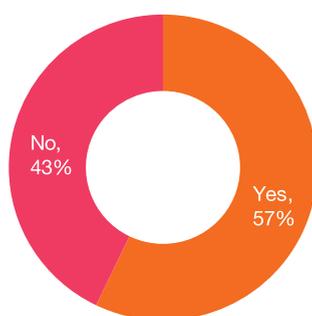
Exhibit 25: Do you consider the lack of credit default swaps to be a handicap?



While the clientele of foreign banks may have achieved greater sophistication, the Indian market is not perceived to be ready for sophisticated financial products.

Respondents seem to be positive on the outlook of the Indian market, with 57% saying that the Indian market is ready for more complex products. This could be a function of the fact that foreign banks largely deal with the top hundred Indian corporates and multinational clients, where the understanding of sophisticated products may be high. A strong 43% feel that India is still not ready to grasp complex financial products, primarily because of the low levels of financial literacy and lack of training of distributors of financial products giving rise to fears of mis-selling, lack of training of distributors of financial products, etc.

Exhibit 26: Is the Indian market ready to roll out more sophisticated financial products?



Which regulatory requirements pose difficulty or complexity in conducting your business?

For most of the foreign banks, the new mandate on priority sector lending and financial inclusion guidelines seem to be posing a challenge. Followed by this were other concerns such as KYC, AML norms, cross-border dealings, single or group borrower limits, etc.

The RBI has recently revised the guidelines with reference to priority sector lending for foreign banks, bringing the mandate to 40% for banks with more than 20 branches from an erstwhile 32%. This needs to be executed over a period of five years. The portfolio of priority sector lending comprises agriculture, MSMEs, education, housing, export credit and others that require a different business and distribution model. Almost all participants felt the need to continue with export finance as a priority sector. Many felt that infrastructure development should be given the same status.

For foreign banks, most Indian clients are rated as BB- or worse, in contrast to which most Indian banks view the local corporate entities as AAA+ rated entities. The global risk treatment of Indian entities inhibits the capital available to fund lending activities in the country. For most banks, initiating rural credit in India is likely to be an unacceptable idea to their credit managers at home since this does not form part of their organic international banking strategies.

Most respondents think that the new guidelines on the subsidiarisation of foreign banks will lead to providing a level playing field for banks, although 44% of respondents said that this kind of 'near national treatment' of foreign banks may not provide them with opportunities similar to domestic banks. Many respondents believed that while they had a limited strategy at present, their head offices would be willing to look at an expansion plan in the future, depending upon macroeconomic and policy conditions.

Exhibit 27: In your opinion, will the proposed guideline on subsidiarisation of foreign banks provide a more level playing field?

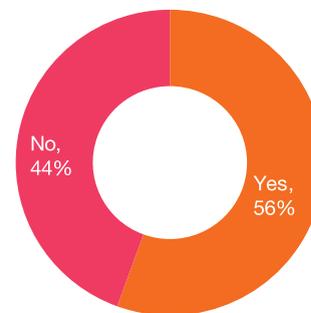
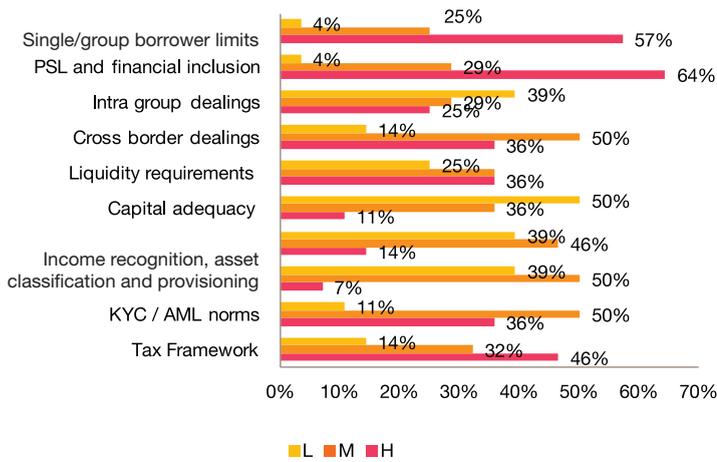


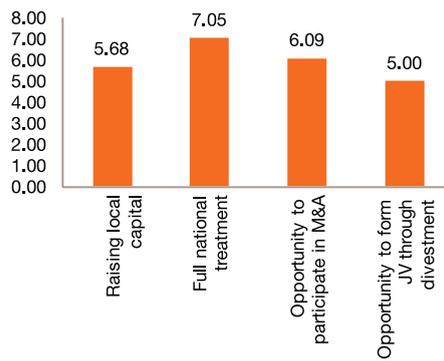
Exhibit 28: Most challenging regulatory requirements



The main objective of the RBI in issuing guidelines on the subsidiarisation of foreign banks is to ring fence foreign banks' operations in India from any adverse shocks at home. In the bargain, it does somewhat level the playing field for foreign banks and render near national treatment to them.

Many of the foreign banks remain unclear about how WOS is going to play out for them, with priority sector lending and rural branches posing a challenge. Acquisition targets in India that are primarily promoter driven and command high valuation may also pose a challenge for foreign banks aspiring to use this opportunity. Lack of alignment of voting rights with shareholding was a concern expressed by many participants.

Exhibit 29: Please rank the following based on their relevance to your decision to incorporate locally, with one having the most relevance to four having the least



79% of the respondents said that the decision to incorporate locally would be primarily so that they can get near national treatment at par with local banks.

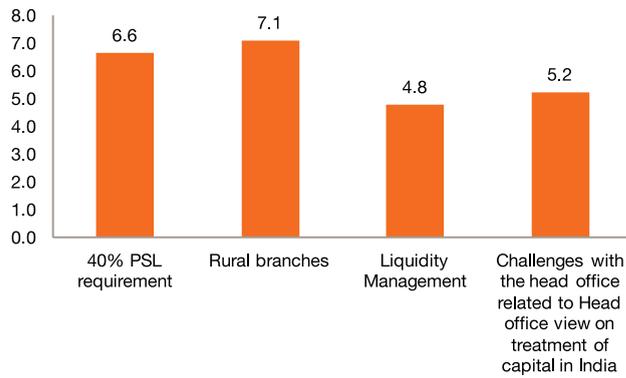
39% said that this would give them an opportunity to participate in increased M&A activities.



In the event of local subsidiarisation, what would be the major challenges for your bank?

Clearly, the inclusion code is yet to be cracked by foreign banks. While the largest of them have submitted plans to the RBI for a five-year transition, market conditions and lack of opportunities to participate through partnerships or other instruments are significant handicaps. Rural branches, for many banks are unacceptable cost centres as branches not only need to fulfil local regulatory requirements of connectivity and brick and mortar presence, but also home country branch specifications that are driven by global standards. Yet, many banks shared examples of their efforts to create outreach in difficult geographies in their home countries using technology and partnerships. However, most expressed concerns around human safety, finding the right talent and lack of power or connectivity; all increasing operational costs. For banks with a definite strategy to grow or banks with more than 20 branches, agricultural lending requirements make rural branches an integral part of the strategy, but there are no clear answers yet on how to best balance the risks and rewards on such a portfolio.

Exhibit 30: Major challenge in the event of subsidiarisation



What are the challenges faced by your bank in terms of the regulatory environment?

At present, foreign banks operate in India as branches of the parent bank. Currently, permission for opening of branches by foreign banks in India is guided by India's commitment to the WTO to allow 12 new branches in a year.

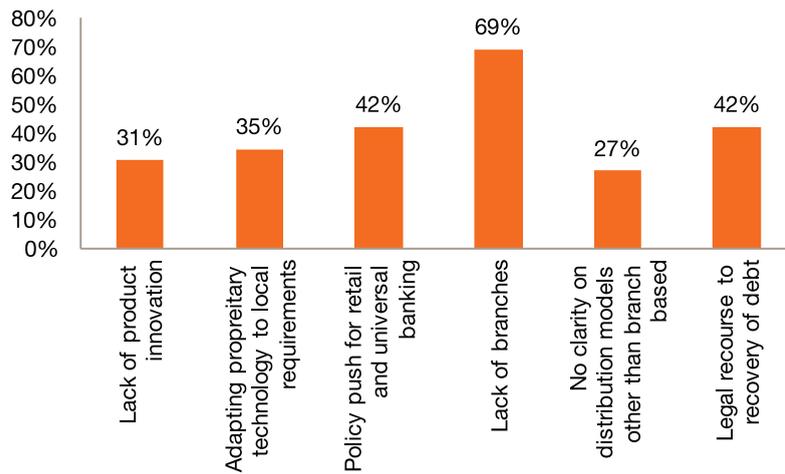
Foreign banks in India feel that the restrictive branch licensing policy has

been a handicap in implementing business plans. The release of the scheme for conversion to wholly owned subsidiaries providing the route of WOS to banks looking for branch growth may not change this perception as most banks are not ambitious about growing large retail network for branches, but would like to grow their branch networks to service their niche client segment.

Perception of risk and regulation by foreign banks in India

- *A differentiated licence regime will be optimal for foreign banks as many of them want to remain with their limited model and are not a source of risk as they have no presence or plans to grow in retail segment.*
- *The twin goals of depositor protection and push towards retail banking seem to be in conflict as most niche banks would be reconciled to give up access to retail deposits if they could operate in a niche segment.*
- *The recent risk based supervision approach has been welcomed by the industry, as it may imply the end of annual on-site inspections which are demanding and often not commensurate with the limited business model.*

Exhibit 31: Challenges in terms of regulatory environment



Source: PwC analysis



69% of respondents said that lack of branches was the topmost concern for them.

42% saying that policy push for retail and universal banking and legal recourse to recovery of debt posed challenges.

Tax perspectives

Exhibit 32: Compared to the other emerging economies, tax environment in India

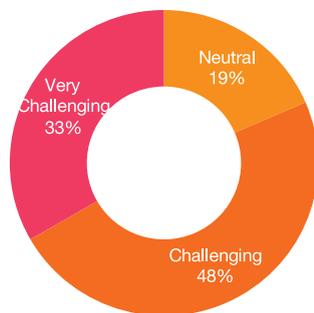
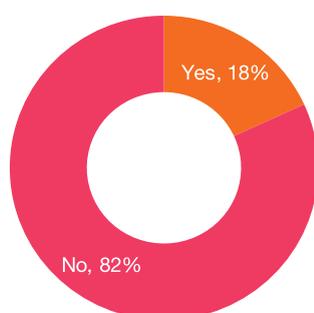
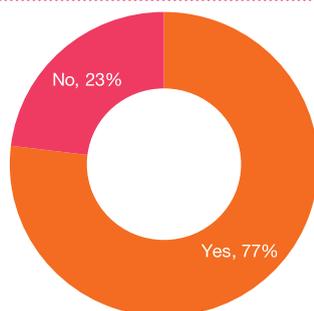


Exhibit 33: Do you consider tax dispute resolution a mechanism to be efficient?



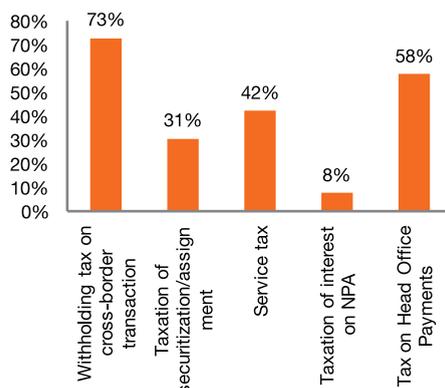
A large number of respondents, roughly 48% find the tax environment to be challenging as compared to other economies, while 33% said that it was extremely challenging to deal with tax laws in India. Around 77% of the respondents also felt that transfer pricing authorities were very aggressive in their approach.

Exhibit 34: Are the assessments done by transfer pricing authorities too aggressive?



The most challenging aspect from the tax perspective is to deal with the withholding tax on cross-border transactions and taxes on head office payments. Moreover, most foreign banks do not consider the tax dispute mechanism to be efficient.

Exhibit 35: Which of the following pose a challenge to your bank?



Although the Reserve Bank of India issued a recent circular to clarify the stance of the government on tax treatment of local subsidiaries and conversion of branch into subsidiary, apprehension of future action have not been put to rest. This is consistent with the current situation where most banks have ongoing tax litigation going back to many years.

Subsidiarisation and different rules in home and host countries also create challenges around transfer pricing. For example, the benefit that the WOS is likely to derive from the parental guarantee will need to be evaluated using transfer pricing principles to determine arms' length charge for the guarantee. Other transactions between the WOS and its parent or affiliates will also need to satisfy Indian transfer pricing regulations.

Section V: Human capital

Human capital is recognised to be the most important element in any service organisation.

India is perceived to host a large talent pool that is young and well educated and compares favourably on cost parameters. However, the growth in the banking industry and the entry of new players has also led to what is perceived to be a war for talent. For many years, foreign banks operating in India were employers of choice for the elite and had first preference at the best educational institutions. However, gradually, with other sectors of the economy doing well, that is gradually changing. Many small foreign banks with low brand recognition compete in the same space as large global brands and extremely visible Indian brands and find it difficult to source quality talent at good prices.

Exhibit 36: What was the level of staff turnover in your bank in 2012-13?

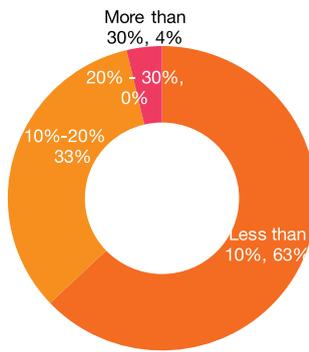


Exhibit 39: Would you say that talent in India is more expensive than similar emerging markets?

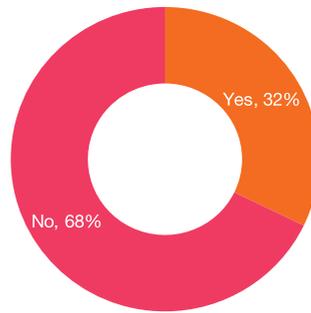


Exhibit 40: In your opinion, is the quality of talent in India equivalent to that in the rest of the world?

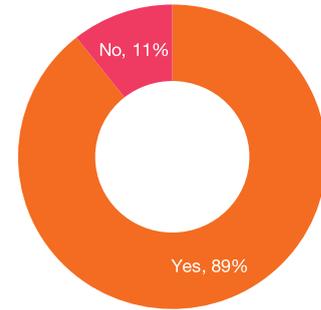


Exhibit 37: To what degree have you needed to adapt your home culture and processes to provide the flexibility of doing business in India?

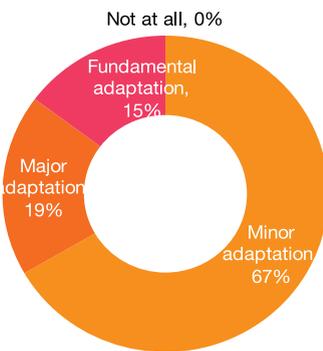
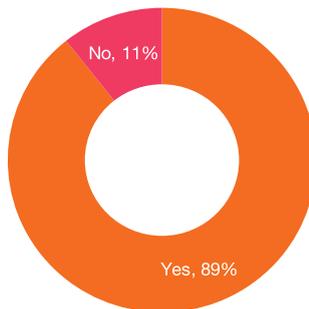


Exhibit 38: Over the next three to five years, will you have the people to deliver your business strategy?



Starting on a positive note, most foreign banks revealed that the level of staff turnover in their banks was less than 10%. A minuscule 4% said that staff turnover exceeded 30%. Many foreign banks operating in India are confident that they will have the human capital to execute this strategy.

Banks also have strong faith in the talent pool available in India, considering it at par with global standards. Most foreign banks consider the talent pool in India to be highly skilled and relatively cheaper than most other emerging economies. However, many banks also felt that there was increasing pressure to pay more for quality of resources that was not necessarily the best. The other good thing

from the perspective of human capital is that these foreign banks have not had to make much of a change by way of culture, considering Indians to be flexible and adaptable.

Lastly, 67% of the respondents agreed that most of the hiring would be in the area of relationship managers in the corporate domain. Risk management also came up as a key area of investment where specialised expertise is required by banks. This was interestingly in contrast with many other markets where hiring strategies at present are more focussed around compliance and AML functions. Most banks also feel that there is a need for succession planning and efficient talent management.

Exhibit 41: Which staff functions have the highest hiring priority in 2013-14?



Appendices



Survey respondents

Thirty two* foreign banks participated in the survey:

1. Abu Dhabi Commercial Bank
2. Antwerp Diamond Bank N.V.
3. ANZ Bank Ltd
4. Bank of America
5. Bank of Bahrain & Kuwait BSC
6. Bank of Ceylon
7. Bank of Nova Scotia
8. Bank of Tokyo Mitsubishi UFJ
9. Barclays Bank Plc.
10. Bank Internasional Indonesia (Maybank)
11. BNP Paribas
12. Citibank N.A.
13. Commonwealth Bank of Australia
14. Credit Agricole Corporate & Investment Bank
15. Credit Suisse A.G
16. Development Bank of Singapore
17. FirstRand Bank Ltd
18. HSBC Ltd
19. J.P. Morgan Chase Bank N.A.
20. JSC VTB Bank
21. Mizuho Corporate Bank
22. National Australia Bank
23. Rabobank International
24. Royal bank of Scotland
25. Sberbank
26. Societe Generale
27. Standard Chartered Bank
28. Sumitomo Mitsui Banking Corporation
29. United Overseas Bank
30. Westpac Banking Corporation

**Two banks that participated in the survey specifically requested that their names are not disclosed*

| List of banks as on 31 March 2013 | Branches | Capital and reserves | Deposits | Advances |
|---|------------|----------------------|----------------|----------------|
| AB Bank Limited | 1 | 751 | 1214 | 625 |
| Abu Dhabi Commercial Bank Ltd | 2 | 3274 | 7043 | 5198 |
| American Express Banking Corp. | 2 | 7604 | 6747 | 17103 |
| Antwerp Diamond Bank Nv | 1 | 2302 | 795 | 7603 |
| Australia And New Zealand Banking Group Limited | 1 | 11324 | 25092 | 23767 |
| Bank Internasional Indonesia | 1 | 2138 | 0 | 0 |
| Bank of America N.T. And S.A. | 5 | 45160 | 73780 | 76230 |
| Bank of Bahrain and Kuwait B.S.C. | 2 | 2886 | 6958 | 6926 |
| Bank of Ceylon | 1 | 1757 | 1194 | 999 |
| Bank of Nova Scotia | 5 | 17850 | 60556 | 77661 |
| Barclays Bank Plc | 9 | 55410 | 50632 | 84723 |
| BNP Paribas | 9 | 22819 | 55797 | 77373 |
| Chinatrust Commercial Bank | 2 | 1603 | 1927 | 2765 |
| Citibank N.A | 43 | 173794 | 665594 | 520355 |
| Commonwealth Bank Of Australia | 1 | 1692 | 513 | 1652 |
| Credit Agricole Corporate and Investment Bank | 5 | 17593 | 5963 | 24042 |
| Credit Suisse Ag | 1 | 13066 | 4187 | 4550 |
| DBS Bank Ltd. | 12 | 29303 | 154876 | 138581 |
| Deutsche Bank Ag | 17 | 78913 | 207943 | 223741 |
| Firststrand Bank Ltd | 1 | 3033 | 713 | 2594 |
| Hongkong and Shanghai Banking Corpn.Ltd. | 50 | 151958 | 568660 | 357087 |
| HSBC Bank Oman S.A.O.G. | 2 | 2229 | 1488 | 51 |
| Industrial And Commercial Bank of China | 1 | 4818 | 1771 | 3372 |
| JPMorgan Chase Bank National Association | 1 | 57535 | 103687 | 53445 |
| JSC VTB Bank | 1 | 1114 | 99 | 885 |
| Krung Thai Bank Public Company Limited | 1 | 491 | 1835 | 160 |
| Mashreq Bank Psc | 1 | 1208 | 1194 | 547 |
| Mizuho Corporate Bank Ltd | 2 | 35877 | 17434 | 55188 |
| National Australia Bank | 1 | 1530 | 0 | 1636 |
| Rabobank International | 1 | 6139 | 834 | 5899 |
| Sberbank | 1 | 1443 | 47 | 370 |
| Shinhan Bank | 3 | 5725 | 14404 | 12061 |
| Societe Generale | 3 | 8571 | 13826 | 17569 |
| Sonali Bank | 2 | 98 | 398 | 184 |
| Standard Chartered Bank | 100 | 191531 | 620017 | 619543 |
| State Bank of Mauritius Ltd | 3 | 6062 | 6009 | 8150 |
| Sumitomo Mitsui Banking Corporation | 1 | 10834 | 15 | 0 |
| The Bank of Tokyo-Mitsubishi Ufj Ltd | 4 | 34023 | 41464 | 68395 |
| The Royal Bank of Scotland N.V. | 31 | 28319 | 127494 | 125339 |
| UBS Ag | 1 | 20675 | 25575 | 9741 |
| United Overseas Bank Ltd | 1 | 1559 | 62 | 358 |
| Westpac | 1 | 8172 | 0 | 0 |
| Woori Bank | 1 | 1636 | 2158 | 329 |
| Grand total | 334 | 1073819 | 2879995 | 2636797 |

Figures in INR million

| Banks | Background |
|---|--|
| Arab Bangladesh Bank Limited | AB Bank Limited is a Bangladesh-based private sector bank, having its overseas office in Mumbai. Established on 31 December 1981 as the first private sector bank in Bangladesh, it started its operation from 12 April 1982. The Mumbai branch of the AB Bank Limited is the sole overseas branch in India. |
| Abu Dhabi Commercial Bank Ltd | ADCB India began operations in 1980 with the objective of further developing Indo-UAE trade relations and catering to the remittance and savings needs of non-resident Indians working in the UAE and other countries in the GCC region. ADCB has been in India serving these niche segments through two branches in Mumbai and Bengaluru. |
| American Express Banking Corp | American Express Bank Ltd India operates as a subsidiary of American Express Bank Ltd which was founded in 1921. Its two centres in India are located at Gurgaon and New Delhi. The Indian operations of American Express revolve around the back office customer services operations, apart from the credit card business for the domestic market. The American Express campus in Gurgaon is the largest employee location by head count for the group and supports the business continuity objectives of the American Express group. |
| Antwerp Diamond Bank Nv | ADB Mumbai is the maiden branch of Antwerp Diamond Bank NV in India, operating since June 2002, and currently located at Opera House in Mumbai. It gives support to the Indian diamond trade and industry. It lends its banking services and grants commercial credits to diamond importers, wholesalers and exporters, diamond cutting and polishing factories, jewellery manufacturers and exporters, diamond and jewellery traders. |
| Australia And New Zealand Banking Group Limited | ANZ commenced banking operations in India with the opening of its first branch in Mumbai in June 2011 after receipt of the banking licence from the Reserve Bank of India in October 2010. ANZ's operations in India are a part of ANZ's global network, comprising of Australia and New Zealand Banking Group Limited (ANZ) in Mumbai and ANZ Operations and Technology and ANZ Support Services India in Bangalore. The India branch supports corporate as well as institutional clients in India and provides greater access to the Indian markets for global network customers. |
| Bank Internasional Indonesia | BI commencing operating its Mumbai branch in 2013. Headquartered in Indonesia, it is a subsidiary of the Maybank Group, one of the largest banks in ASEAN by total assets and market capitalisation. It provides trade, foreign exchange and related banking products and services to Indian companies with business interests in the ASEAN region and vice versa. It also caters to Maybank Group's customers and their counterparties for their banking requirements in India. |
| Bank of America N.T. And S.A. | The Bank of America commenced operations in India through its Mumbai branch in 1964. The bank offers a range of financial products and solutions to Indian corporates, multinationals, multilateral agencies and foreign government entities and financial institutions. It is headquartered in Mumbai, with five branch offices across Mumbai, New Delhi, Kolkata, Chennai and Bengaluru. The global merger of Merrill Lynch with a subsidiary of the Bank of America Corporation added a product suite of services through DSP Merrill Lynch, an investment banking, securities and wealth management services' firm. |
| Bank of Bahrain And Kuwait B.S.C. | The Bank of Bahrain and Kuwait (BBK) was incorporated in Bahrain in March 1971. BBK opened branches in India in 1986 as a scheduled commercial bank. There are three branches in India, in Mumbai, Hyderabad and Aluva in Kerala. |
| Bank of Ceylon | BOC is owned by the government of Sri Lanka and has a network of 301 local and three overseas branches. The bank started operations in Chennai in 1995. |
| Bank of Nova Scotia | Scotia Bank was established in Nova Scotia in 1832. Today, the bank and its affiliates offer a broad range of products and services, including personal, commercial, corporate as well as investment banking services to 19 million customers across 55 countries. It has presence in India with branches in Mumbai, New Delhi, Coimbatore, Bengaluru and Hyderabad. |
| The Bank of Tokyo-Mitsubishi Ufj Ltd | Bank of Tokyo Mitsubishi is one of the five primary operating companies of Mitsubishi UFJ Financial Group (MUFG). MUFG's services include commercial banking, trust banking, securities, credit cards, consumer finance, asset management, leasing and several other fields of financial services. BTMU began operations in Mumbai, the financial capital of India, in 1953 as a predecessor company to the Bank of Tokyo from an iconic building in Fort, the business district. The bank has four branches in India, at Mumbai, New Delhi, Chennai and Neemrana in Rajasthan, and is the largest Japanese bank in India. |
| Barclays Bank Plc | Barclays, a British multinational banking and financial services company headquartered in London, has had its presence in India for nearly three decades, with an investment banking division and personal and corporate banking services in Mumbai, Pune, New Delhi, Hyderabad and Bengaluru. Globally, Barclays has operations in retail, wholesale and investment banking, as well as wealth management, mortgage lending and credit cards in over 50 countries and territories and has around 48 million customers. |

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| BNP Paribas | BNP Paribas set-up its operations in India 150 years ago in Kolkata. It was the first French bank and the second foreign bank to have a set-up in the country. The bank has branches in eight major cities of Mumbai, Delhi, Kolkata, Chennai, Hyderabad, Bengaluru, Ahmedabad and Pune. BNP Paribas India Solutions Private Limited is a subsidiary of BNP Paribas SA, set up in 2005 to provide IT and back-office processing services, infocentre and data warehousing, with a major focus on capital markets information technologies, for the BNP Paribas group. |
| Chinatrust Commercial Bank | Established in 1996 in New Delhi, Chinatrust Commercial Bank (CTCB), a private sector bank of Taiwan, has its presence in India as a scheduled bank. The bank has completed more than 16 years of successful operations in India. Chinatrust established its first branch in New Delhi in April 1996 and opened its second branch in Sriperumbudur (Chennai) in June 2012. |
| Citibank N.A | Citibank began operations in India in 1902 in Kolkata. It offers consumers and institutions a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services and wealth management. The bank operates 42 full-service branches in 30 cities across the country providing services to more than 40,000 small and mid-sized companies across India. |
| Commonwealth Bank of Australia | The CBA started its operations in India in 2004 with a representative office in Bengaluru, offering trade finance services to clients doing business with Australia. Subsequently, it launched its full-fledged operations at its Mumbai branch in 2010. The Mumbai branch provides a range of savings accounts, loans, money transfers and international trade finance services for customers in India. It also offers a range of NRI products for Indians living in Australia. |
| Credit Agricole Corporate and Investment Bank | Crédit Agricole CIB, a leading retail banking group of France, has been in India since 1981, and is located in Bengaluru, Chennai, Delhi, Mumbai and Pune. From these five branches, it also deals with the large markets in Ahmedabad, Kolkata, Hyderabad and Baroda. It offers a comprehensive range of products and services, tailored to the needs of Indian companies, multinational companies and financial institutions. It also offers its customers a wide range of products as well as services in terms of cash management and working capital facilities. |
| Credit Suisse Ag | Credit Suisse Group AG is a Switzerland-based multinational financial services holding company headquartered in Zurich. After entering India in 2009, Credit Suisse provides a wide array of investment banking as well as securities services with offices in Mumbai and New Delhi. This includes a full range of equity underwriting and financial advisory solutions to Indian corporates as well as to multinational companies looking to build their presence in the Indian market. |
| DBS Bank Ltd | DBS was established in 1968 as the Development Bank of Singapore. Headquartered and listed in Singapore, DBS has over four million customers, and also has a growing presence in the three key Asian axes of growth, Greater China, Southeast Asia and South Asia. The bank initially entered India as a representative office in 1994, and opened its maiden branch in 1995. |
| Deutsche Bank Ag | Deutsche Bank is a German bank headquartered in Frankfurt. It has around 78,000 employees worldwide, across 70 countries. Deutsche Bank in India is a fully-integrated financial services provider to Indian corporate, institutional and individual clients. Deutsche Bank has been in India since 1980 and is one of the larger foreign banks present in the country. |
| FirstRand Bank Ltd | FirstRand Bank India is a branch of FirstRand Banking Group South Africa. FirstRand Bank is the first bank from Africa to be granted a full-scale commercial banking licence in India. It has commenced its banking operations in India since April 2009 and currently has one branch in Mumbai. |
| Hongkong and Shanghai Banking Corp Ltd | HSBC's origins in India dates back to 1853, when the Mercantile Bank of India was established in Mumbai. The parent company, HSBC Holdings plc is a British multinational banking and financial services company headquartered in London. In India, it offers a comprehensive suite of world-class products and services to its corporate and commercial banking clients as also to a fast growing personal banking customer base. The bank also has over 50,000 active commercial banking customers in India, including proprietors, partnerships, clubs and associations, incorporated businesses and publicly quoted companies. |
| HSBC Bank Oman S.A.O.G. | HSBC Bank Oman S.A.O.G was the first 100% Omani-owned commercial bank in the Sultanate of Oman and today it has the largest network of branches in Oman, including 82 branches in the country and four overseas branches in Mumbai and Cochin(India)and Karachi and Lahore (Pakistan). |
| Industrial and Commercial Bank Of China | The Industrial and Commercial Bank of China opened its first branch in India in Mumbai. It officially entered the Indian banking industry as the first representative of Chinese mainland banks and was granted the final licence by the RBI on 16 May 2011. The branch engages in comprehensive banking business, including corporate banking, retail banking, and investment banking. |
| JPMorgan Chase Bank National Association | JPMorgan's presence in India dates back to 1922. Mumbai is one of JPMorgan's largest locations outside the US and serves as a regional hub. India is an important focus for JPMorgan's expansion in the Asia-Pacific region. The lines of business include the investment bank, the global corporate bank, private equity, asset management and treasury and securities service. JPMorgan has a large global service centre in India that is rapidly expanding in scope and size. |

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| JSC VTB Bank | JSC VTB Bank, located in New Delhi is a Russian-owned international bank present across 13 countries. It started its operations in India in the year 2008, with its maiden branch in New Delhi. Offering assistance in fund-based and non-fund based advances, which include term loans for creation of assets, export and import guarantee, documentary credits, packing credit, post-shipment loans, and other corporate banking services. |
| Krung Thai Bank Public Company Limited | Founded in 1966, Krung Thai Bank operates 511 domestic and 12 foreign branches and representative offices worldwide in 2006. It's largest shareholders are from the public sector with the Ministry of Finance holding 30.80 percent and the Financial Institutions Development Fund 29.97 percent. |
| Mashreq Bank Psc | Mashreq Bank Psc provides banking and financial services in the UAE as well as internationally. It is a relatively new entrant in the Indian banking industry. It has its head office in Mumbai. The bank offers fast and easy money transfers to India. |
| Mizuho Corporate Bank Ltd | MHCB is an important arm of the Mizuho Financial Group. It is considered to be the second largest financial services provider in Japan. MHCB is essentially a corporate and investment bank, formed by merging the corporate and investment banking divisions of Fuji Bank and Dai-Ichi Kangyo Bank with the Industrial Bank of Japan. Today, the capital strength of the Mizuho Corporate Bank stands at 1,404,065 million JPY. In India, it has opened its branches in the cities of Mumbai and New Delhi, with the office in Mumbai being the head office. |
| National Australia Bank | NAB has been present in Asia since the late 1960s, commencing operations with a representative office in Tokyo. Its Mumbai office was opened recently in 2012, to strengthen its business and customer base in Asia. NAB operates through 1,750 branches and service centres and employs over 50,000 staff globally. Currently, NAB operates in India, Hong Kong, China, Singapore and Japan and Indonesia. |
| Rabobank International | Rabobank Group, a leading food and agribusiness bank, has been operating in India since 1998. Presently, it operates as Rabobank International, with its first branch and corporate headquarters located in Mumbai, Rabo India Finance, a non-banking finance company (NBFC) and Rabo India Securities, the investment banking arm of the group and provides specialised products and services. In addition, Rabobank is one of the sponsors of the India Agribusiness Fund, the 120 million USD food and agriculture sector private equity fund in India. The fund is sponsored with a 25% share of the committed capital. |
| The Royal Bank Of Scotland N.V. | The RBS Group is a large international banking and financial services company, headquartered in Edinburgh. RBS has been in India since 1921, bringing along with it capabilities in debt capital markets, international transaction services, foreign exchange and rates, as well as providing balance sheet advisory and structuring. Currently, the retail and commercial banking operations in India is undergoing a consolidation. The bank will consolidate its presence into eight business hubs namely Bengaluru, Chennai, Delhi-NCR, Hyderabad, Kolkata, Mumbai, Pune, and Vadodara. It is expected that this process will be completed by the end of 2013. |
| Sberbank | Sberbank Rossii OAO is a Russia-based commercial bank. Sberbank started its India operations in 2010. It provides a range of corporate as well as retail banking services, such as payments and transfers, currency exchange, credit cards, travel cheques, mutual funds, precious metal trading, deposits, brokerage services and many others. |
| Shinhan Bank | Shinhan Bank's India operations were established in May, 1996 with the opening of its first branch in Mumbai. It now has branches in New Delhi and Vellore. Since establishing the first branch in Mumbai, the bank has been posting profits in each year of its operations. Apart from traditional banking products, the bank also offers through its branches in India products such as trade credit arrangements, ECB arrangements, PCFC and export bill nego, no-frills account. |
| Societe Generale | Societe Generale has been present in India since 1978 with the establishment of a representative office in Delhi. In 1985, it opened its first full-fledged banking branch in Mumbai and a second branch in Delhi in 1993. Societe Generale provides a wide range of banking facilities and services from customer deposits and plain vanilla working capital loans, term loans; trade finance and corporate fx to more sophisticated investment banking products like structured finance, derivatives etc. |
| Sonali Bank | Sonali Bank has opened two branches in India with a regional head office in Kolkata. It offers a wide range of services such as personal banking, corporate banking, Hajj savings, rural credit, micro credit, international banking, industrial financing, deposit and credit schemes, SME banking, project finance, trade finance, loan syndication, foreign exchange dealing, NGO-linkage loan, investment, government treasury function, money market operation, capital market operation and remittance. |
| Standard Chartered Bank | Standard Chartered Bank has been operating in India since 1858. In India, the bank provides personal banking, priority banking, NRI banking, business banking. The bank operates through a number of subsidiaries in India such as the Standard Chartered Securities (India) Ltd, the vehicle for the equities business, Standard Chartered Private Equity Advisory (India) Private Limited, Standard Chartered Investments and Loans (India) Limited, Standard Chartered Finance limited and SCOPE International. |

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| State Bank of Mauritius Ltd | The State Bank of Mauritius has been present in India since 1994, with its first branch in Mumbai. The bank also has branches in Chennai and Hyderabad. As a growing international bank in the wholesale banking domain in India, SBM provides a wide range of corporate and commercial banking services. These include corporate lending, treasury services, cash and trade transaction services to corporate, financial institutions and small and mid-tier clients across industries and segments. |
| Sumitomo Mitsui Banking Corporation | Sumitomo Mitsui Banking Corporation received its licence to operate in India in May 2012. It has significant exposure to India through foreign currency loan extended by its overseas offices and has advised several infrastructure projects. It is a partner with the Delhi Mumbai Industrial Corridor Development Corporation for advising and bringing financing solutions to DMIC. |
| UBS Ag | UBS AG is a Swiss global financial services company headquartered in Basel and Zurich in Switzerland. The bank's Mumbai Branch offers its clients products across financial markets, institutional banking, corporate banking and individual banking. In 2013, the bank surrendered its banking license in India. |
| United Overseas Bank Ltd | United Overseas Bank Limited, a major Asian bank headquartered in Singapore, established its maiden branch in India in Mumbai and commenced business on 29 December 2009. Founded in 1935, UOB provides a wide range of financial services, including personal financial services, private banking, commercial and corporate banking, investment banking, corporate finance, capital market activities, treasury services, futures broking, asset management, venture capital management, insurance and stock broking services. |
| Westpac | Westpac has been operating in India through its representative office since 2007 and was awarded a foreign banking licence by the RBI in April 2012. Westpac opened its first branch in India in November 2012. The branch aims to support Australian customers and a growing number of Indian customers with trade and investment links to Australia. Westpac offers wholesale and retail banking services in India including trade finance, deposits, remittances, payments and receivables, savings and current account, foreign exchange and treasury services predominantly in Indian rupees. |
| Woori Bank | The South Korea-based, Woori Bank, a part of the Woori Financial Group, launched its first branch in India, at Chennai, in 2012 to provide assistance to Korean companies in the country in corporate banking and to serve local clients. The Chennai branch is the head office of Woori Bank in India. |



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