



BANK

BANKING SECTOR

FINANCE,
FRAMEWORK
& FUTURE

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KEY CONTRIBUTORS

01

The global banking sector, with an estimated size of **\$180–200 trillion in total assets**, is growing at an overall CAGR of approximately **4–6%**, driven by technology adoption, regulatory shifts, and evolving customer expectations reshaping competitive dynamics.

02

Digital transformation and sustainability are major trends, with North America leading investments in technology, and Asia-Pacific witnessing strong mobile banking adoption

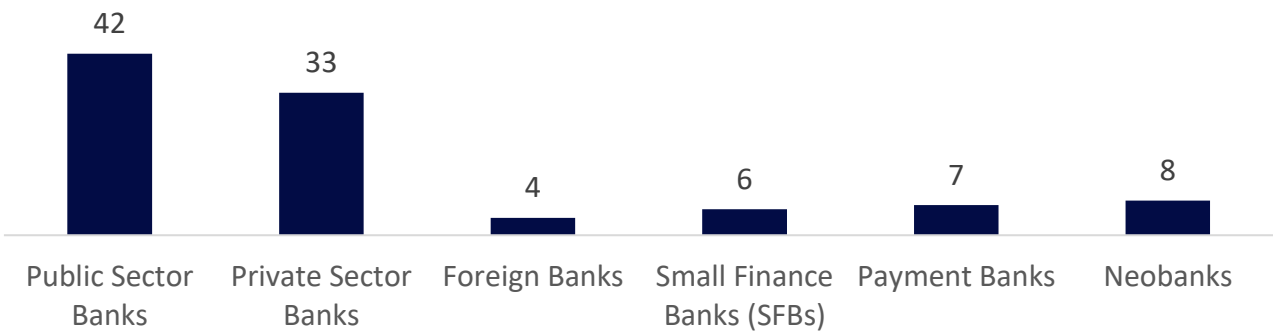
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India's banking industry with a size of around **\$2.7–3 trillion**, is growing at an overall CAGR of approximately **8–10%**, fueled by economic growth, rising incomes, and increasing access to credit.

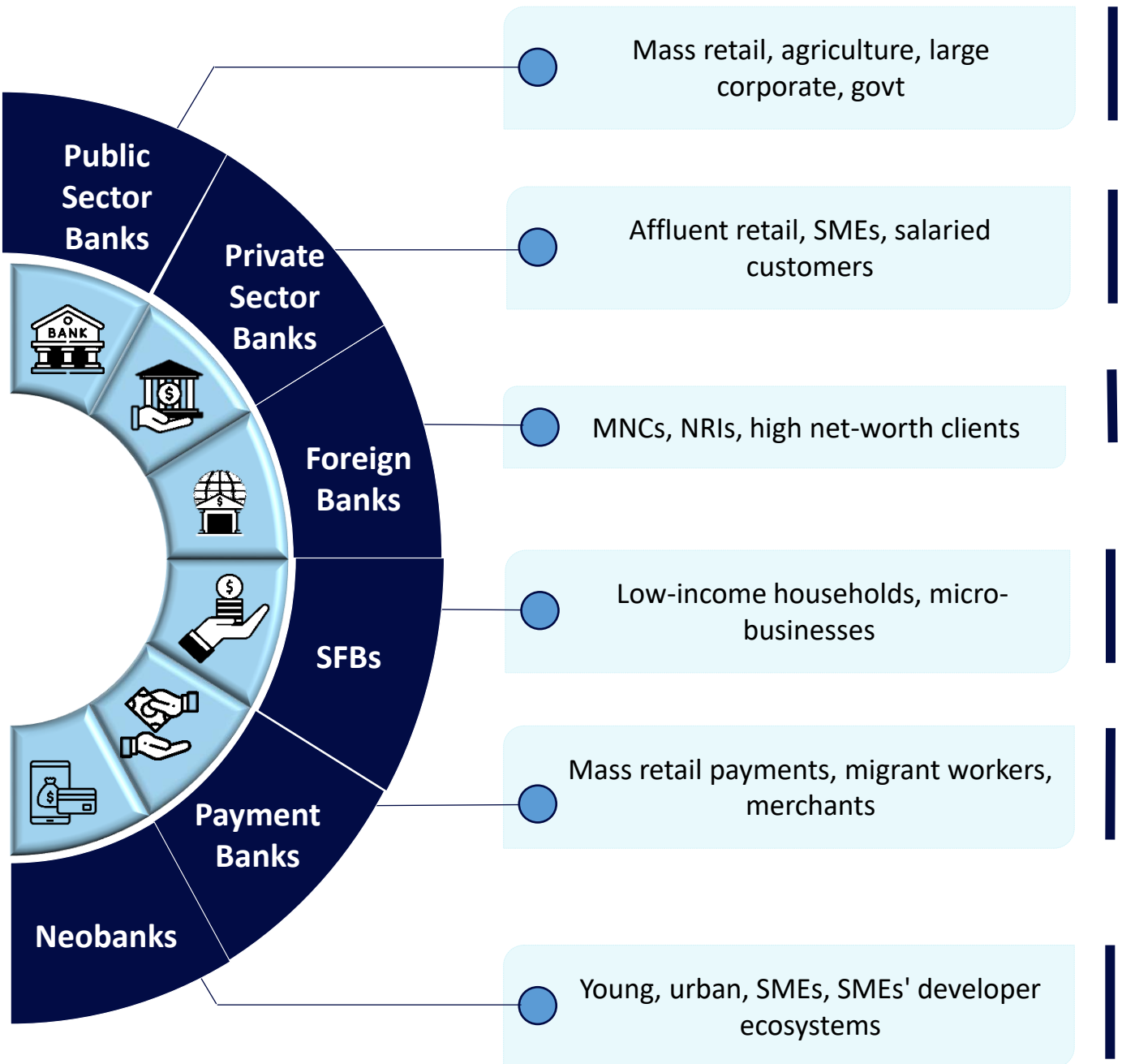
04

Digital payments have experienced explosive growth, with Unified Payments Interface (UPI) serving 491 million users and 65 million merchants, processing transactions worth US\$ 240 billion as of June 2025.

Customer Segment Share (%)



Banking Sector Customer Segment



Banking Sector Strengths



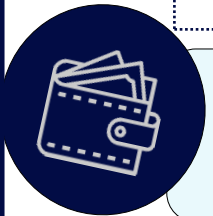
Public Sector Banks

Strong branch presence with focus on government business and priority sector programs.



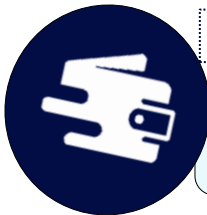
Small Finance Banks (SFBs)

Financial inclusion, micro-finance, MSME lending, priority sector



Private Sector Banks

Expertise across retail UX, digital banking, consumer lending, and corporate banking.



Payment Banks

Capabilities in payments, remittances, mobile wallets, and small deposits.



Foreign Banks

Capabilities in trade finance, corporate, wealth, and cross-border services.



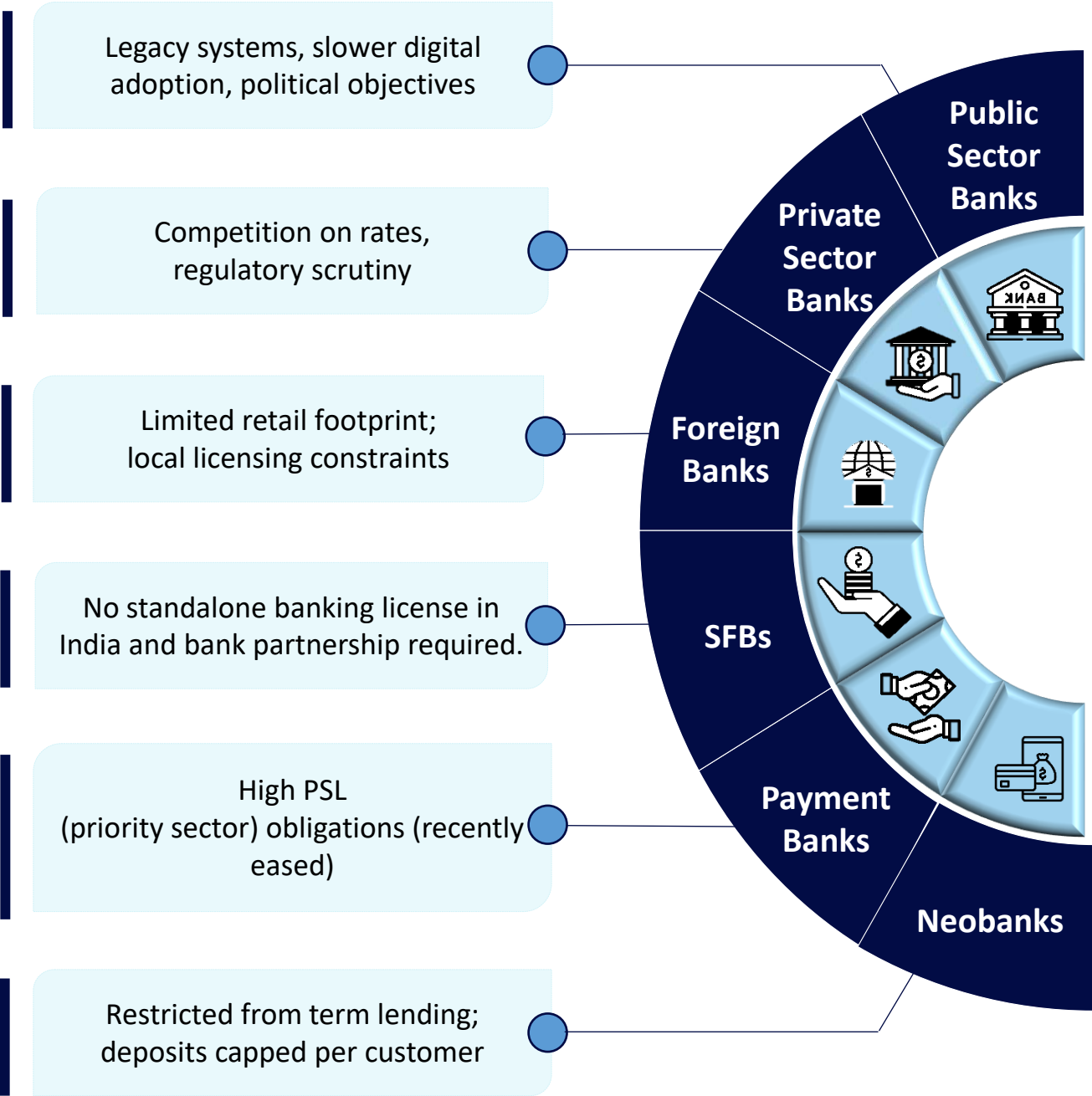
Neobanks

UX-led product innovation with targeted propositions across savings, spend analytics, and SME tools.

Profile of Leading Indian Commercial Banks (FY24-25)

BANK	CORE STRENGTHS
State Bank of India (SBI)	India’s largest by assets; assets ~USD 808 billion as of FY24.
HDFC Bank	Leading private bank by market cap in 2025.
ICICI Bank	Strong digital growth & retail lending portfolio.
Bank of Baroda	Large national network; plays role in consolidation.
Kotak Mahindra Bank	Digital banking focused; high growth potential.

Banking Sector Key Constraints



Public Sector Banks v/s Private Banks v/s Foreign Banks

Technology and product pace

- In terms of mobile user experience, instant onboarding, and API ecosystems, **private banks** and fintech partners—including neobanks—outperform PSBs.
- Although they have legacy technical debt, **PSBs** are investing in modernization.

Trust and distribution

- **PSBs** continue to grow in size and reach (rural branches, government payments).
- **Private banks** compete fiercely on customer service, quicker processes, and innovative products.
- **International banks** are targeted and successful in niche markets.

Pricing and margins

- **Private banks** frequently provide unique fee structures (loans, cards) and higher yield products.
- Prices for corporates and high-value services are set **by foreign banks**.
- **PSBs** have to strike a balance between commercial metrics and social goals.

Types of Banks

Public Sector: 12 major banks dominate branch networks and are crucial for financial inclusion.

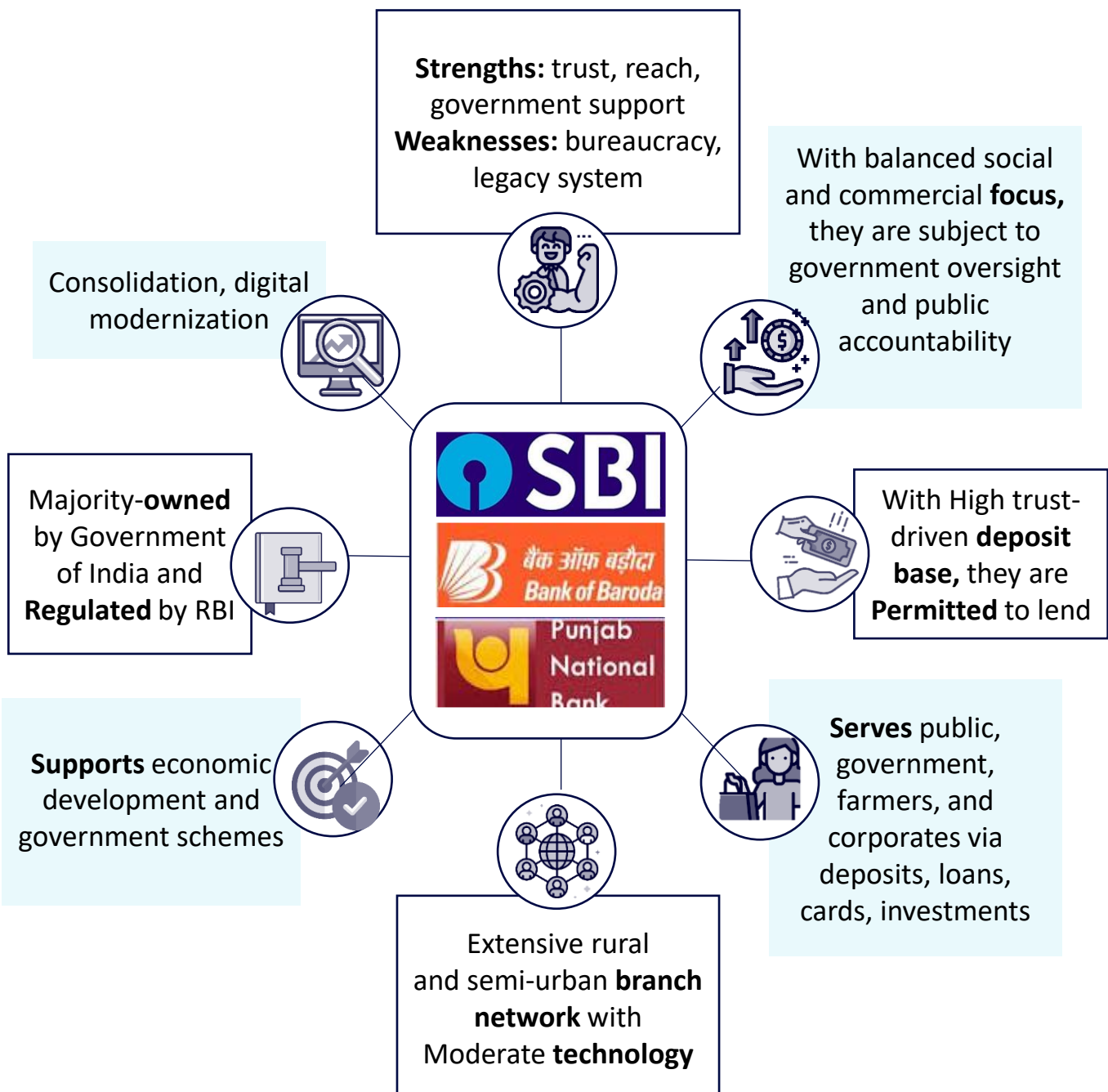
Private Sector: 21 banks with aggressive growth, technology adoption, and urban focus.

Payment Banks: Around 44 operate with urban-centric services and global expertise.

Small Finance Banks: 11 banks mainly focused on unbanked and underbanked segments.

Foreign Banks: 5 banks driving financial inclusion and digital payments.

PUBLIC SECTOR BANKS (PSBs)



PRIVATE BANKS



Privately owned by Indian promoters and institutional investors. Regulated by RBI.



Focused on profitability, innovation, and customer experience.



Strong urban and semi-urban branch presence with High technology adoption.



Serves urban retail customers, SMEs, and corporates with full-service retail and corporate banking



With strong deposit mobilization, they are permitted to lend..



Operating under RBI prudential norms they are oriented for profit maximization.



Strengths: efficiency, innovation, profitability.



Weaknesses: High performance expectations.



Expanding into SME + wealth mgmt.



FOREIGN BANKS (PSBs)



Foreign-owned banking subsidiaries or branches.



Regulated by RBI.



Focused on international clients, trade finance, and wealth.



Limited branch presence, mainly in metros.



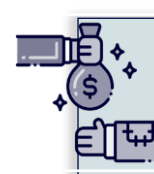
Advanced technology aligned with global standards.



Serves MNCs, HNIs, and global trade clients.



Offers corporate lending, trade finance, and wealth services.



Permitted to lend.



Moderate deposit base.



Strong profit orientation.



Regulated by RBI and home-country authorities.



Strengths: corporate and FX expertise.



Weaknesses: limited retail scale.



Staying niche, exploring partnerships



SMALL FINANCE BANKS (SFBs)



Privately owned domestic promoters; regulated by RBI.



Focused on financial inclusion and unbanked segments.



Moderate regional branch network with improving hybrid (physical + digital) technology.



Serves low-income households and MSMEs with retail loans, microfinance, and savings.



Permitted to lend under PSL obligations with moderate deposits and profitability.



Governed by priority sector lending norms and RBI regulations.



Strengths include inclusion focus and regional expertise. Weaknesses include limited tech and product depth



Expanding beyond microfinance following PSL relaxation

PAYMENT BANKS

Privately owned by corporate groups; regulated by RBI.



Focused on digital payments, remittances, and financial inclusion.



Limited physical presence with very high mobile-first technology adoption.



Serves unbanked users, small merchants, and migrant workers with payments and capped deposits.



No lending permitted; deposits capped per customer with low transaction-based profitability.



Operates under strict RBI norms including deposit caps, no lending, and investment limits.



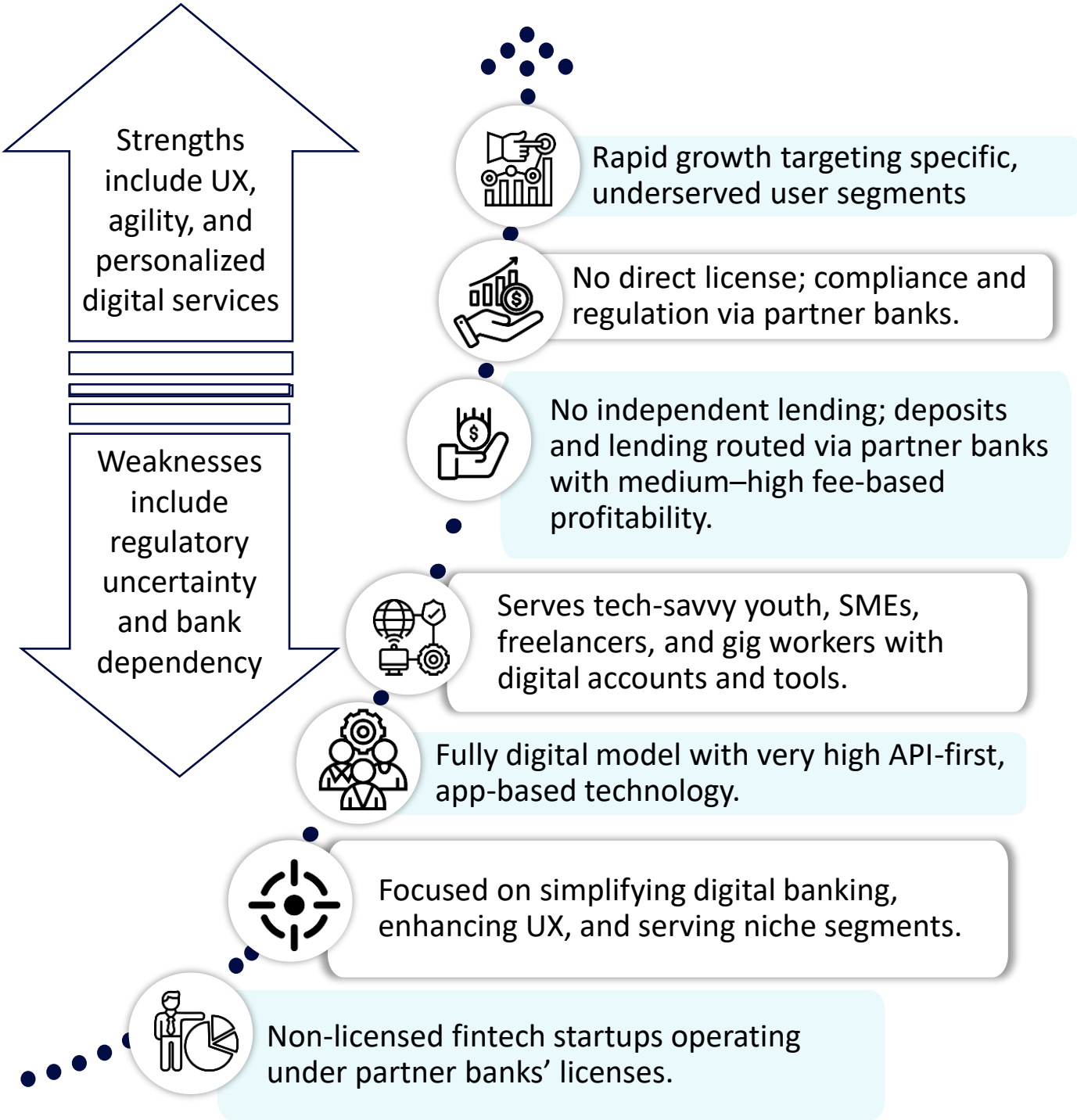
Strengths include wide digital reach and low-cost operations
Weaknesses include limited revenue sources.



Expanding reach through partnerships with fintech platforms.



NEOBANKS





Emerging Models: Neobanks
(Global & Indian Context)

Neobanks are digital-only banks, operating without physical branches, and usually in partnership with traditional banks.

Worldwide, neobanks like Revolut and N26 demonstrate success by leveraging technology and agile business models to deliver low-cost, customer-centric experiences.

While neobanks lack full banking licenses in India, they partner with licensed banks for regulatory compliance and focus on MSMEs and retail segments.

Major players in India include PayTM Payments Bank, which targets underserved segments and innovates with digital solutions.

Competitive Mapping

Public sector banks dominate with approximately 60% of total assets but private banks are rapidly increasing their footprint and profitability, especially in digital payments and credit card issuance

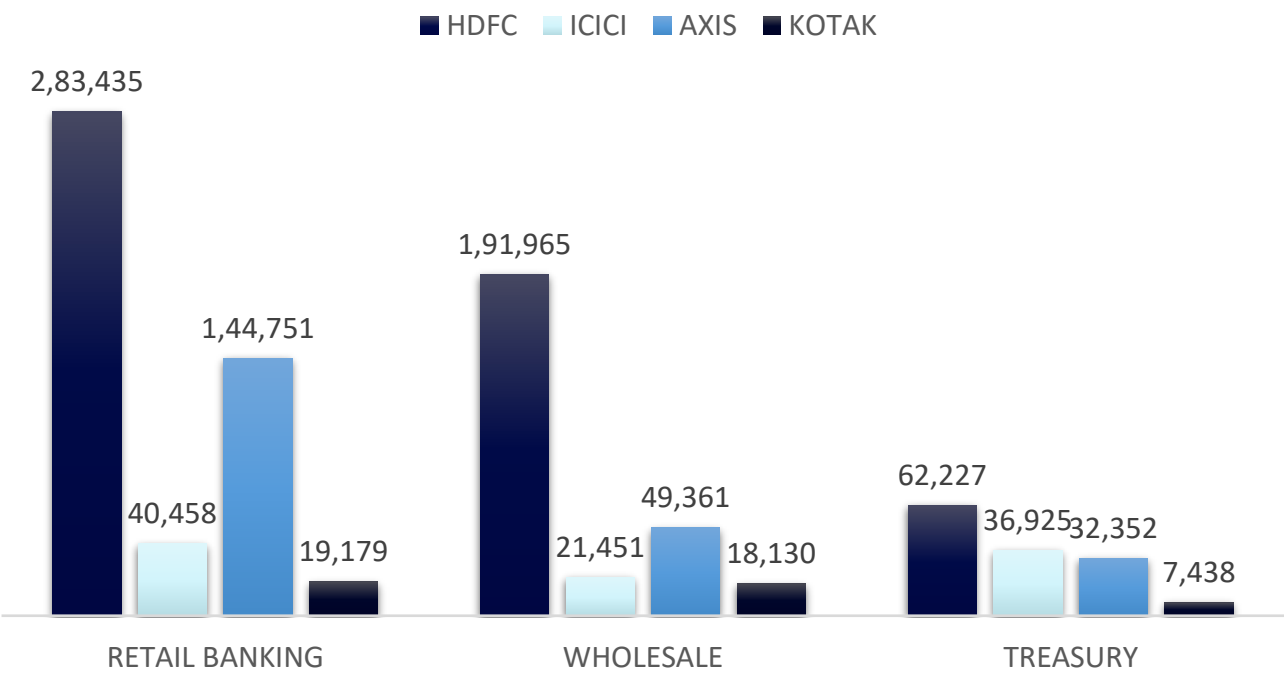


Private banks lead in terms of tech adoption and customer experience, while PSBs leverage their deep reach and government support to serve rural and priority sectors.



Foreign banks hold a small but profitable niche, while small finance and payment banks drive last-mile connectivity and financial inclusion.

SEGMENTAL REVENUE OF TOP BANKS



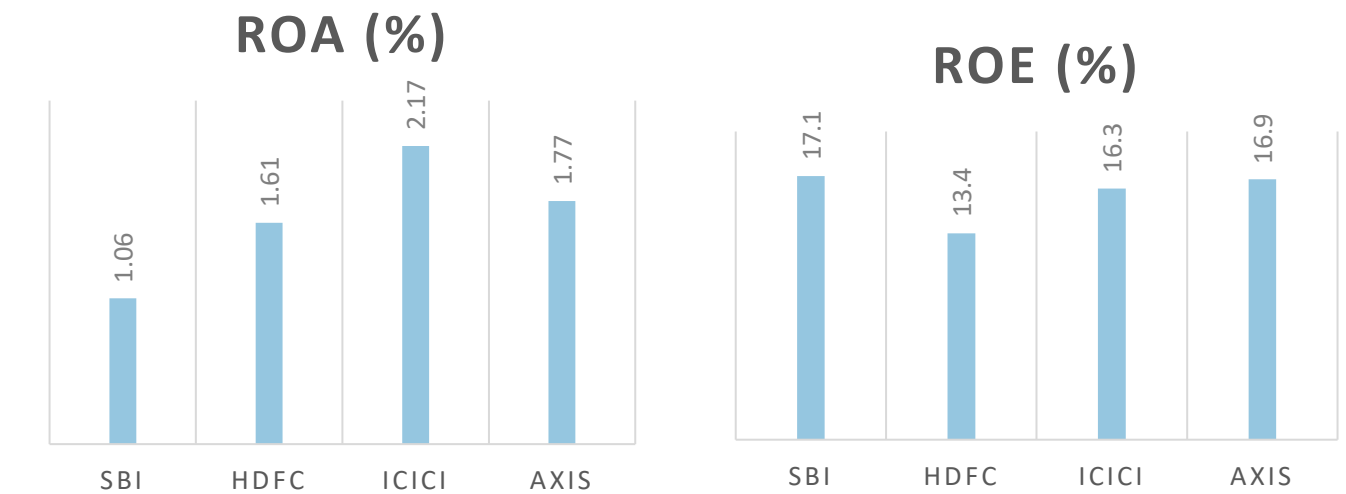
Comparative Performance Analysis

Remains the **market volume leader** but is currently a laggard It is focusing on stabilising its Loan-to-Deposit Ratio following its merger, with growth being steady.

The **top efficiency performer**. It leads in Net Interest Margins (NIM) and Return on Assets (ROA), with a clear upward trend in its stock price due to consistent, high-quality earnings.

The **high-growth challenger**. It recently recorded the highest YoY growth in advances (+14%) and deposits (+15%) among the group, making it the most aggressive grower.

The **resilient PSU giant**. It continues to dominate in total reach and absolute profit volume, benefiting from a pick-up in corporate loans and high system-level liquidity.



Profitability (ROA & ROE)

ICICI leads on ROA in FY25 (highest asset profitability)

While SBI's ROE remains competitive given its large capital base and scale

Margin (NIM)

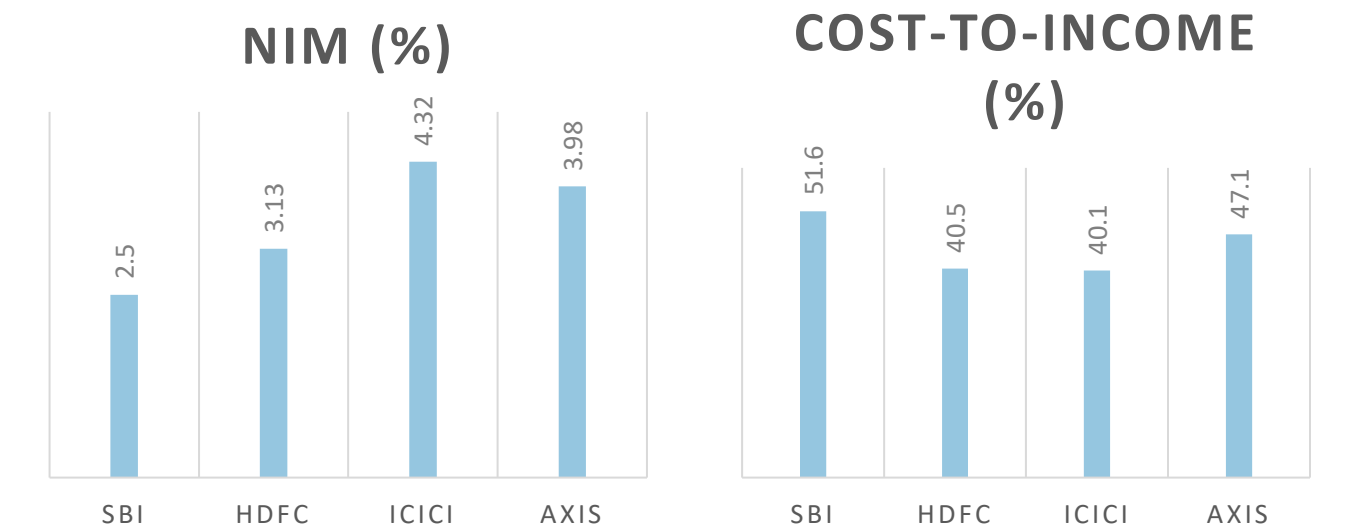
HDFC and ICICI — traditionally margin-focused retail lenders — show superior NIMs

Axis narrowed the gap in FY25.

Efficiency (C/I)

HDFC has the lowest C/I, showing best operating efficiency; SBI's higher C/I reflects scale

legacy costs and broader social priority spending.

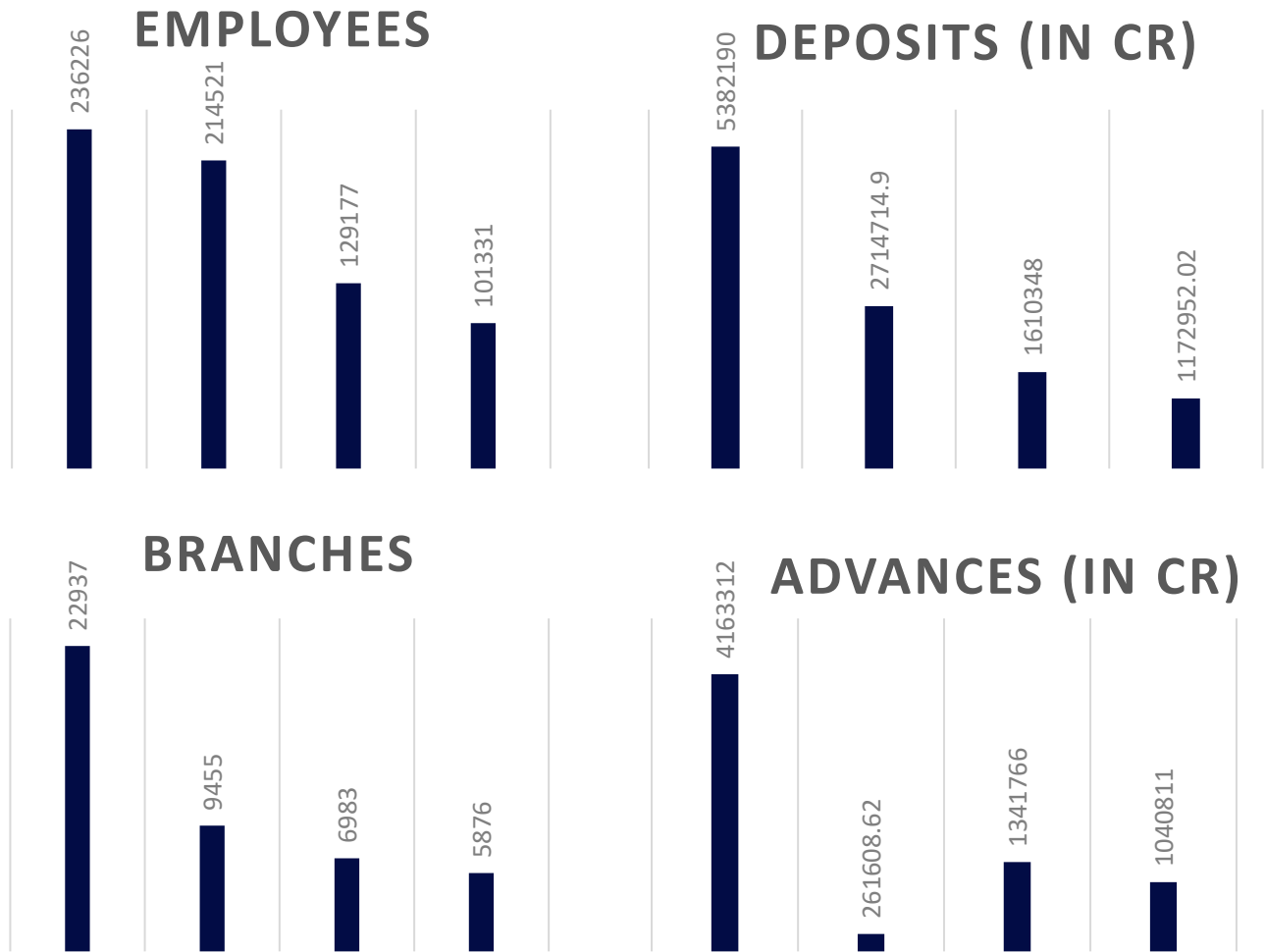


Unit Economics

For banks, unit economics typically focus on per-branch or per-employee productivity:

- $\text{Business per Employee} = (\text{Deposits} + \text{Advances}) / \text{Total Employees}$
- $\text{Profit per Employee} = \text{Net Profit} / \text{Total Employees}$
- $\text{Business per Branch} = (\text{Deposits} + \text{Advances}) / \text{No. of Branches}$
- Digital Transaction Share (% of total transactions done digitally)

Bank	Employees	Branches	Deposits (in crore)	Advances (in crore)
SBI	236226	22937	5382190	4163312
HDFC	214521	9455	2714714.9	261608.62
ICICI	129177	6983	1610348	1341766
Axis	101331	5876	1172952.02	1040811



RBI and Digital Banking (2025)

In 2025, the Reserve Bank of India (RBI) introduced a series of far-reaching regulatory updates aimed at strengthening the nation’s digital banking and fintech landscape. These measures seek to balance innovation with robust consumer protection, risk management, and operational transparency, as banking and payments move deeper into the digital realm.



Authentication Mechanisms for Digital Payment Transactions Directions

Released September 25, 2025



- Effective from April 1, 2026 Mandatory for all domestic digital payments (banks and non-bank payment providers).

Risk-based approach



- Enhanced authentication for higher-value or high-risk transactions.

Implement 2FA



- Mandate two-factor authentication for all digital payments with at least one dynamic factor for non-card-present transactions

Cross Border Scrutiny



- Cross-border payments under enhanced scrutiny with minimum authentication standards and dynamic validation aligned with global trends.

Interoperable Services



- Issuers must offer a range of authentication services such as OTP, biometric, passphrase, PIN, or any device-native method.

Customer Compensation



- Issuers are responsible for customer compensation if losses arise from non-compliance

Digital Lending Guidelines, 2025



Updated on May 8, 2025, these guidelines establish new standards for transparency, data protection, customer consent, and outsourcing across all regulated entities-banks, NBFCs, & co-operative banks.



Strict compliance is mandated for data governance, borrower disclosure, secure processing, grievance redressal, and limitations on third-party digital lending platforms.



These rules multi-lender digital credit models, ensuring that regulated banks retain full operational and compliance responsibility-even address growing risks from unregulated and when partnering with fintech or neobank platforms.

Merchant KYC and Offline Payments



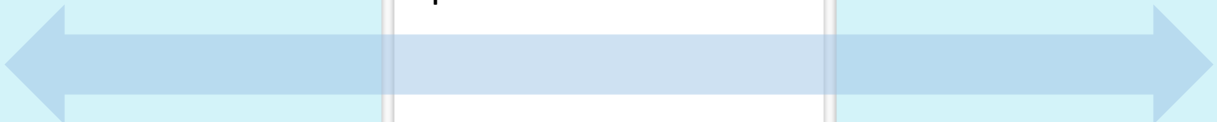
2025 RBI regulations tightened requirements for merchant onboarding and KYC verification.



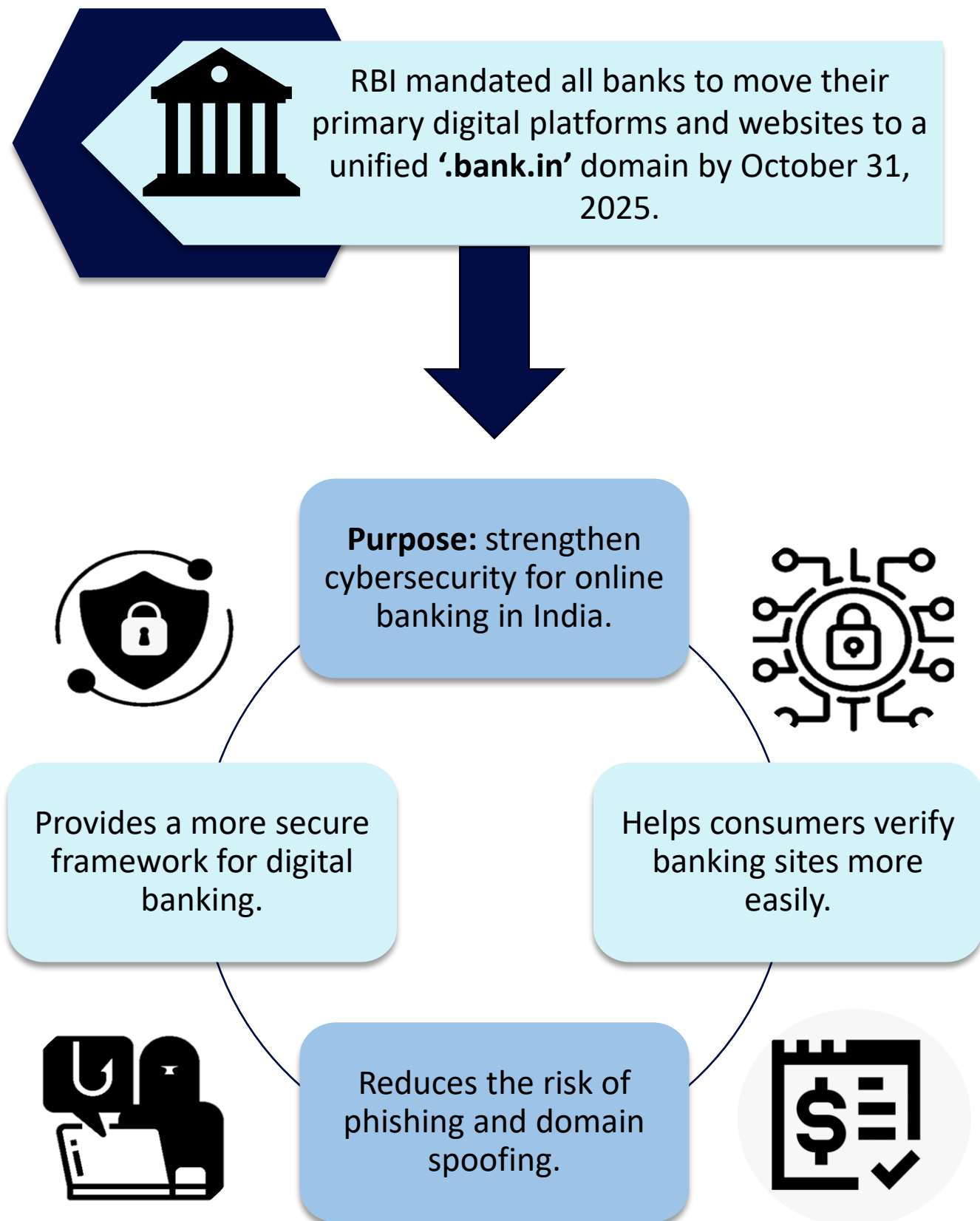
Offline payments (areas without internet) now require enhanced due diligence and strong fraud-prevention measures.



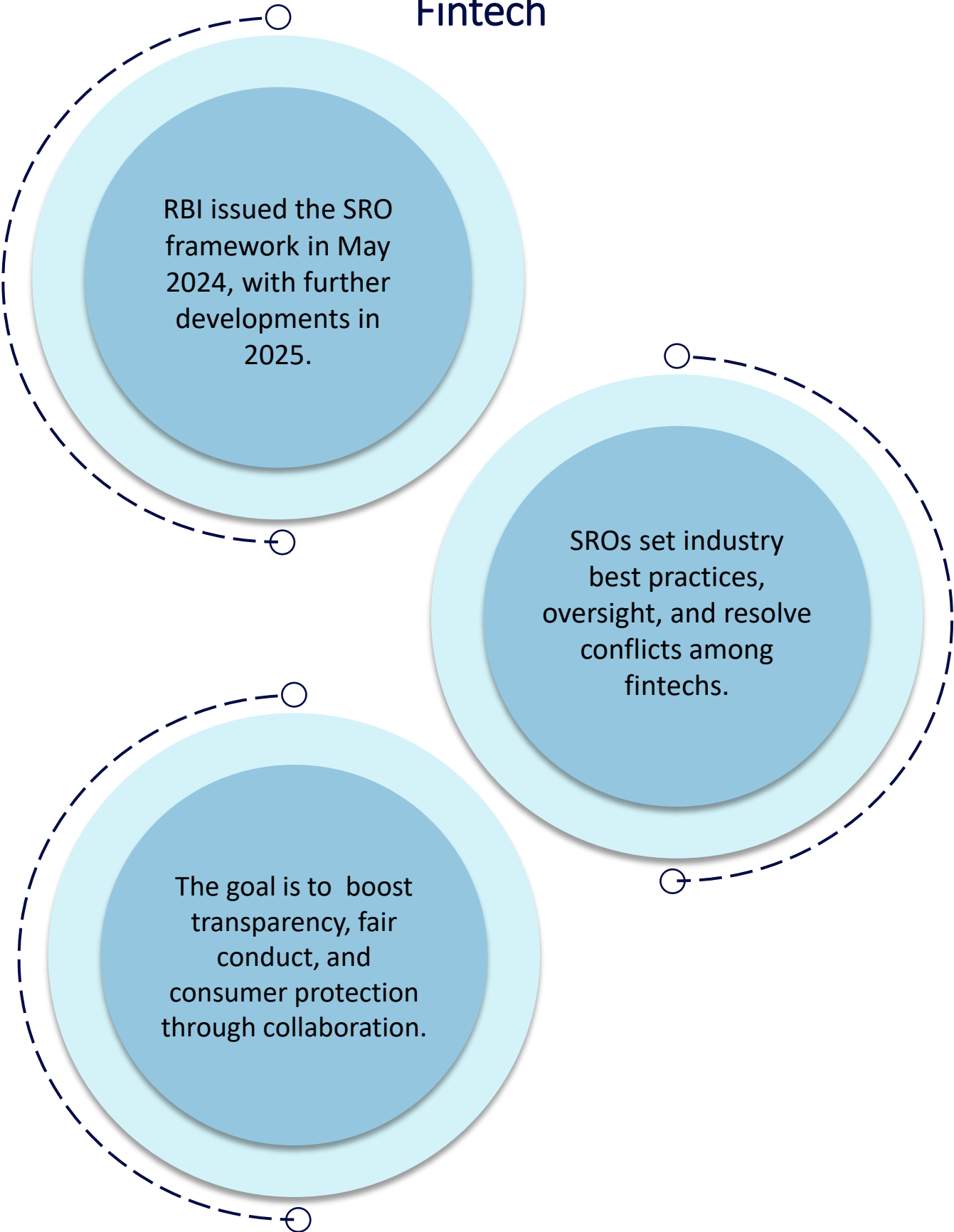
These updates aim to promote financial inclusion and security, with a special focus on rural digitization.



Migration to '.bank.in' Domains Directive



Self-Regulatory Organisation (SRO) Framework for Fintech



Prepaid Payment Instruments (PPIs) and Account Aggregators

2025 master directions regulate issuance, customer protection, and risk for digital wallets and PPIs, increasing consumer trust.



The Account Aggregator ecosystem enables a safe, permissioned, and consolidated financial data view for individuals across regulated entities.

Overseen by RBI's FinTech Department, this system is rapidly growing.



Digital Banking Units (DBU) Framework

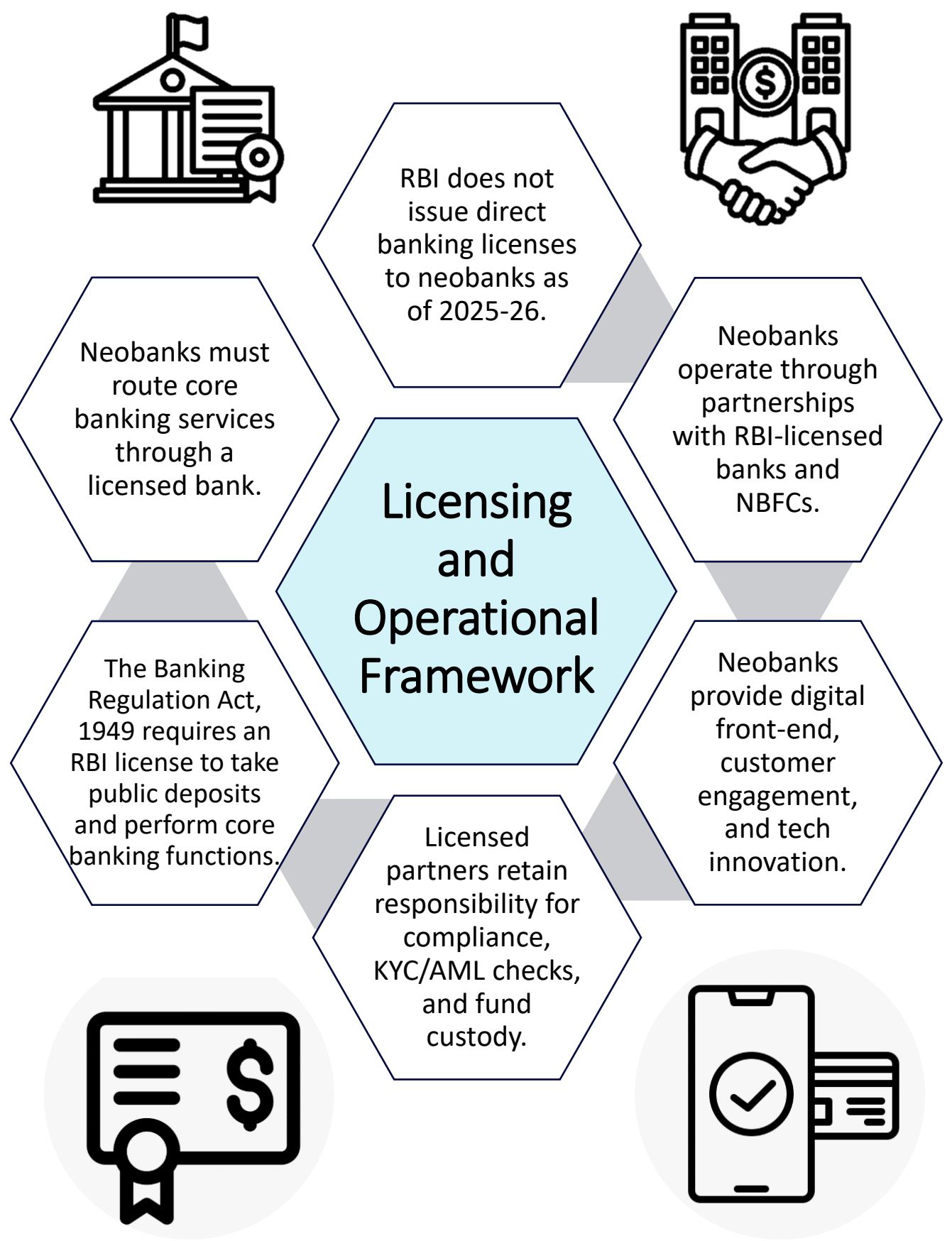


RBI is expanding the DBU framework for banks to establish specialized digital-only branches.

These units offer streamlined processes, improved product suites, and foster deeper digital financial inclusion.

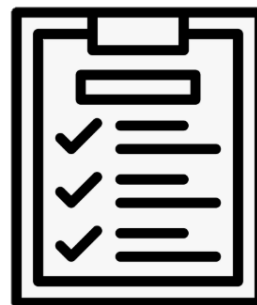


Key focus is reaching underbanked regions and modernizing banking infrastructure.



Outsourcing, Risk, and Compliance

- Neobanks follow the RBI's outsourcing guidelines and recent digital payment/lending standards.



- The licensed bank/NBFC holds final liability for regulatory breaches, including operational failures, KYC lapses, and cybersecurity issues.

- Enhanced compliance requirements for both partners due to:
 - The Digital Personal Data Protection Act, 2023.
 - Grievance redress channels.



- Regulatory Sandbox allows fintechs and neobanks to test new products with regulatory oversight before launching broadly.

Future Policy Directions and Licensing Debates



As of FY25-26, direct neobank licenses are still under policy debate and not implemented.

NITI Aayog and expert committees suggest a phased digital bank licensing model for India.

Scale to full licenses (₹200 crore) based on operational success and compliance.

Start with “restricted” licenses (₹20 crore paid-up capital).



RBI remains cautious due to potential systemic risks and global lessons.

What is Neobank?



Neobanks are 100% digital financial institutions that operate without any physical branch network, delivering all services via mobile apps and web.



Despite being digital-only, they provide features including savings and current accounts, debit cards, personal/business loans, and instant payment systems.



The movement is led by international "challenger banks" such as **Nubank** (Brazil), **Revolut** and **Monzo** (UK), **N26** (Germany), and **Chime** (USA).

Current Imbalance in the market

Global



\$230.55 Billion

- ❖ **Scale:** Over **250+** active digital-first banks globally.
- ❖ **User Base:** Estimated at over **350 million** users by 2026.
- ❖ **Lead Region:** **Europe** holds the largest revenue share (~34-37%) in 2024-2025.

Indian

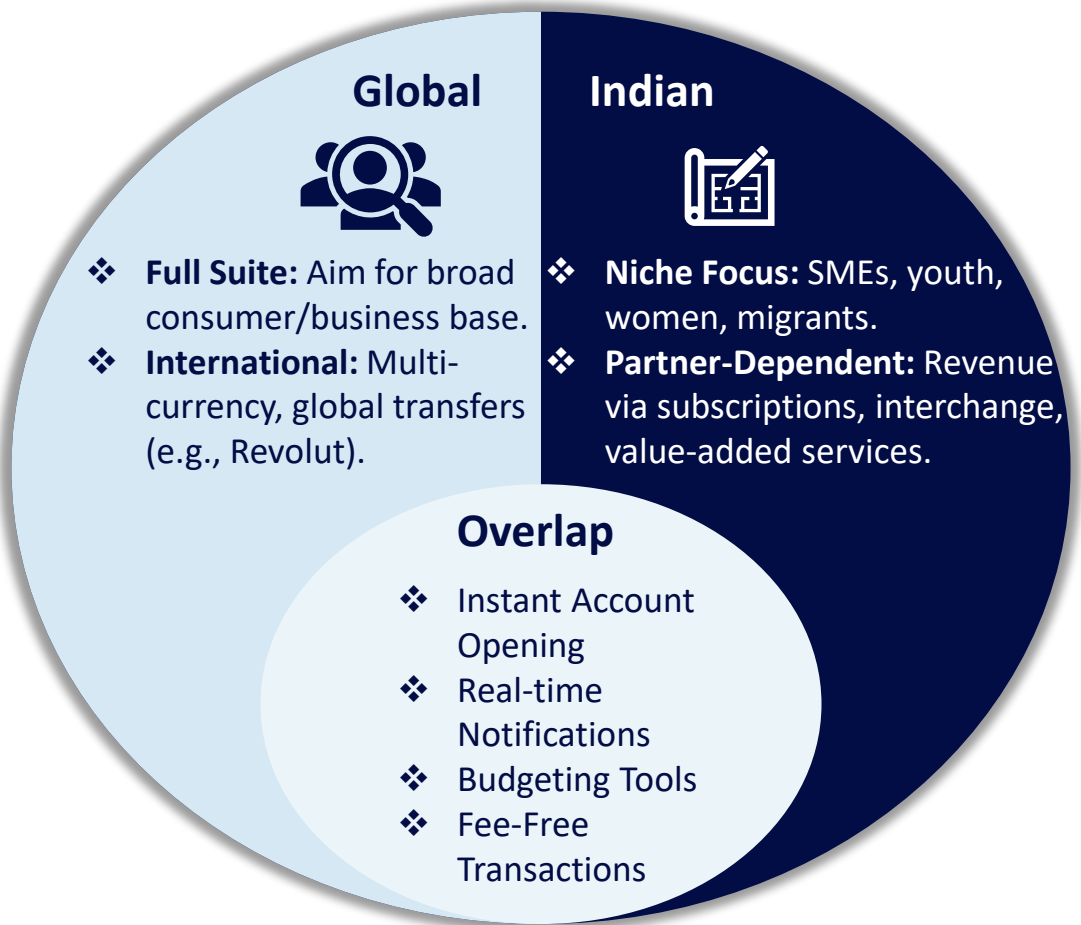


\$156 Billion

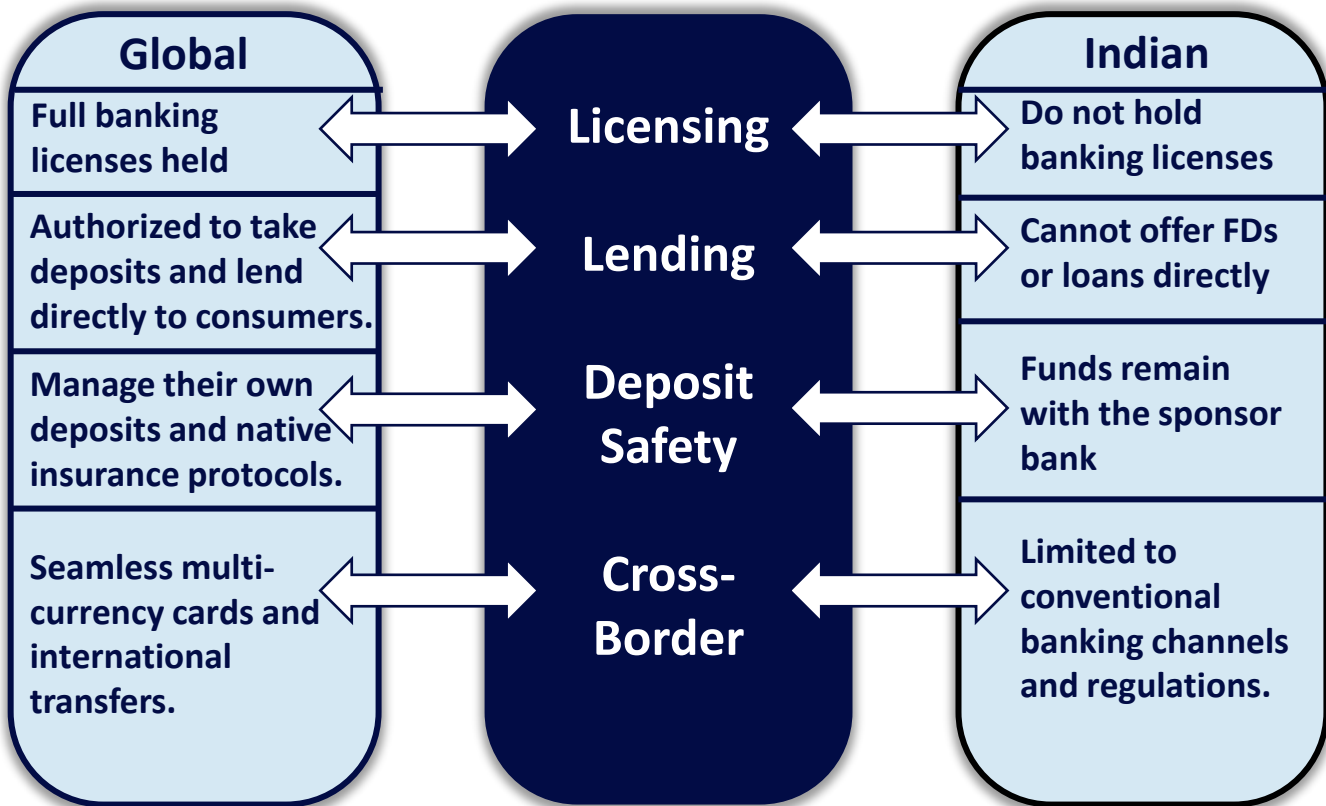
- ❖ **Scale:** Roughly **30+** neobank startups currently operating.
- ❖ **Funding:** Top players (Open, Niyo, NeoGrowth, Zolve) have collectively raised over **\$500 million**.
- ❖ **Growth:** Expected annual expansion rate of **50.5%** through 2025.

Profitability Gap:

- Global: Several mature, profitable leaders.
- India: Most in growth stages profitability is rare (except niche leaders like NeoGrowth).



Regulatory



Feature	Indian neobank	Global neobank
Licensing	Partner with licensed banks; no independent digital banking permits currently allowed.	Hold full or specialized digital licenses to operate independently.
Scale and funding	Growing funding (tens of millions); market size is emerging and localized.	Massive venture backing; multi-billion dollar valuations like Nubank and Revolut.
Target customers	Niche focus on youth, SMEs, and underbanked communities.	Target broad mass-market consumers with aggressive international expansion
Services	Powered by local stacks like UPI, Aadhaar, and domestic e-KYC.	Advanced features including crypto, multi-currency wallets, and direct lending.

Scaling adoption

Rising smartphone and internet penetration are rapidly expanding the digital banking footprint across diverse market segments.

Regulatory evolution

Anticipated shifts toward specialized digital license frameworks are creating new pathways for more direct operations.

Service innovation

Next-wave growth is driven by the integration of embedded finance, open banking, and personalized financial service

Strategic alignment

Future models will leverage shared global digital DNA while remaining specifically tailored to local infrastructure and regulatory constraints.



Deal Value
\$40 billion, it is the largest corporate merger in India's history.

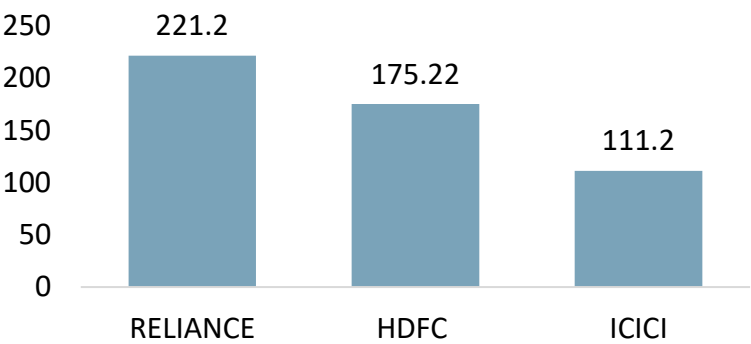
Share swap ratio
42 shares of HDFC bank for every 25 shares of HDFC Ltd.

Transaction Overview

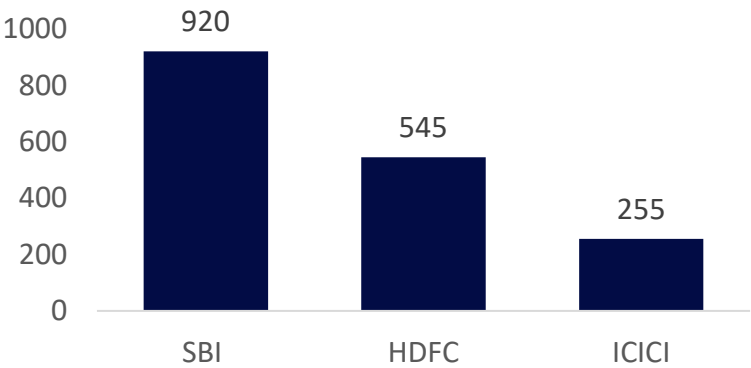
Global ranking
Top 10 Banks globally by market capitalization

Ownership Structure
100% public (no promoters)

Market Position



MARKET CAPITAL IN \$ BILLION



TOTAL ASSETS IN \$ BILLION

Roadmap

April 2022

Strategic initiation

Merger announcement & plan unveiled

Early 2023

Regulatory compliance

Regulatory approvals (RBI, IRDAI, PFRDA, CCI)

March 2023

Judicial authorisation

NCLT (National Company Law Tribunal) final clearance

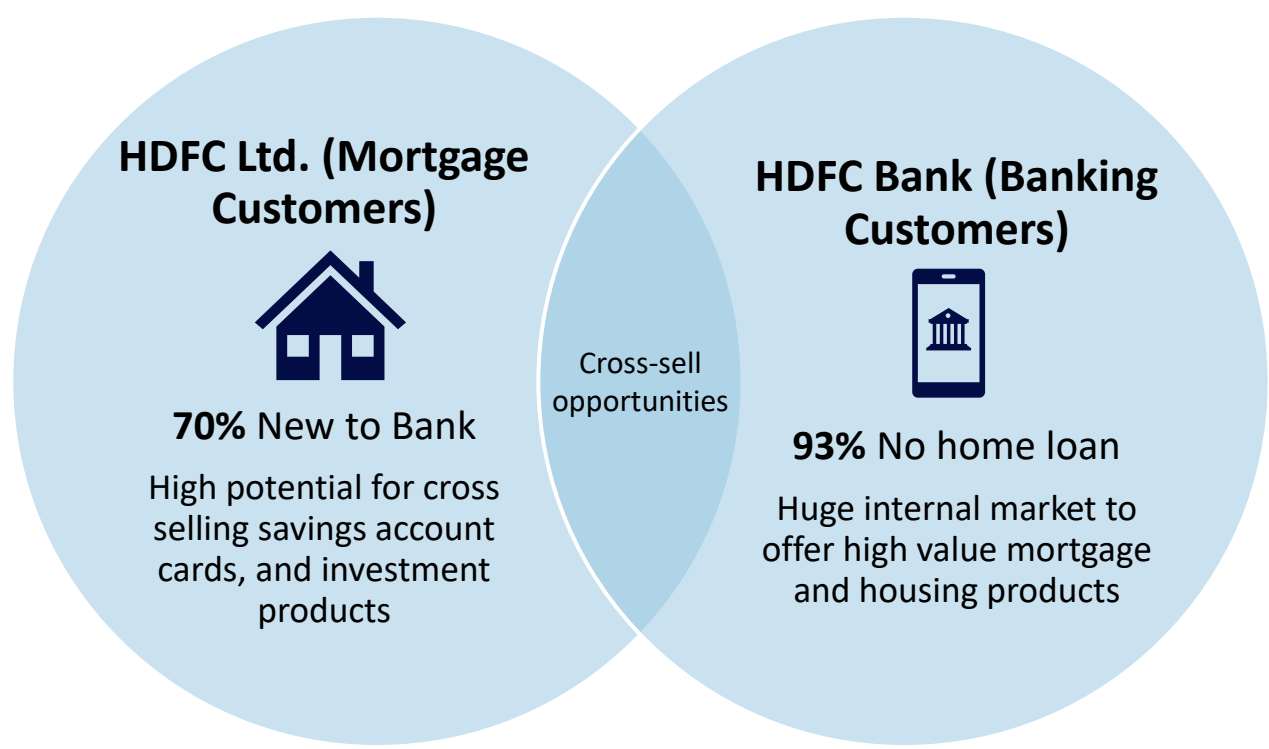
July 1, 2023

Operational integration

Merger effective date; HDFC Ltd. Ceases to exist



The cross selling opportunity



Market Impact

Market Confidence	Economy & Infrastructure	Industry & NBFC shift
Stock Growth: HDFC Bank's rose by over 10% following the merger announcement. Shareholder Value: the all stock swap created 100% public owned entity with no promoter holding	Big ticket funding: the bank's scale allows it to finance large scale national infrastructure projects Credit reach: the enhanced ability to provide credit across diverse sectors of the Indian economy	Funding Gaps: HDFC Ltd. a major borrower forces, other housing finance companies to find new funding sources Competitive: the merger creates a private sector giant, nearly 2x the size of its nearest peer ICICI Bank.

ENBD-RBL Bank acquisition



Transaction Type

- Acquisition of ~60% controlling stake through primary capital infusion
- Capital-led acquisition strengthening Tier-1 ratios without balance-sheet merger

- Deal valuation: ~USD 3 billion
- Largest ever foreign direct investment in Indian private banking sector



Deal Value



Why it happened

- Infusion boosts RBL's balance sheet, Tier-1 capital, and long-term growth capacity
- Combines ENBD's capital + MENAT regional strength with RBL's India-wide distribution network

- RBL Bank Employees Union protested takeover; called it "onslaught of international finance capital."
- ENBD's existing India branches (Mumbai, Delhi, Chennai) will be merged into RBL bank.
- RBL Bank stock surged **8.36%** to **₹324.55** post-announcement



Post Transaction Impact

Sumitomo Mitsui Banking Corporation acquires Yes bank



Transaction Type

- Strategic minority stake acquisition of 24.21% via equity investment (including 13.19% acquired from SBI)
- Long-term strategic investment with board representation

- Deal valuation: ~1.6 billion dollars
- SMBC became the single largest shareholder in Yes Bank following this acquisition



Deal Value



Why it happened

- SMBC believes India's commercial banking market offers huge upside — with fee pools expected to grow strongly and a shift from public to private banks.
- SMBC calls this a “rare opportunity” to plug the “last missing piece” in its multi-franchise strategy.

- YES bank share rises up to **15%** after this deal
- SMBC got board influence: two of its nominated non-executive directors will join YES Bank's board.



Post Transaction Impact

Blackstone acquires Federal Bank

Transaction Type

- 1) Investment for 9.9% stake via preferential equity shares
- 2) Minority strategic investment with governance and board participation

Deal Value

- 1) Deal valuation: ~705 Million Dollars
- 2) One of the largest private equity investments in an Indian private sector bank



Strategic Rationale

- 1) Blackstone's investment gives federal bank a fresh capital to expand and revive
- 2) Blackstone saw huge potential in Indian retail and SME market
- 3) This deal gives Blackstone board members representation, governance and alignment in the decisions

Post Transaction Impact

- 1) Federal bank share rises and hit all time high record after the investment of Blackstone in BSE
- 2) Federal Bank shares surged ~**3.4%** to **₹235.20** post-announcement
- 3) Positive investor sentiment due to capital strengthening and foreign strategic backing.

Capital One acquires Discover

Transaction Type

- 1) All stock acquisition of Discover Financial Services by Capital One
- 2) Structure preserves Capital One's regulatory capital ratios

Deal Value

- 1) Deal valuation: 35.3 billion dollars
- 2) Implied ~26% premium to Discover's prior closing share price



Strategic Rationale

- 1) The deal aims to create a fully integrated payments and banking platform by combining Capital One's scale with Discover's card network.
- 2) It enables Capital One to own the payments network, improving margins, control over transaction economics, and long-term competitiveness against Visa and Mastercard.

Post Transaction Impact

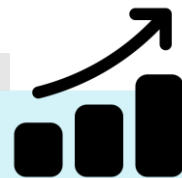
- 1) Discover Financial shares surged ~12.6% post-announcement, reflecting premium expectations.
- 2) Capital One gains control of Discover Network, PULSE, and Diners Club
- 3) Combined entity becomes one of the largest U.S. credit card issuers, strengthening market presence

Future outlooks and emerging trends that are shaping and can occur in the future

Trend 1

Technology is shaping the banking sector

The digital revolution in banking transformed access, affordability and inclusion. Now, generative AI promises to unlock the next wave of personalized, customer-centric innovation, driving financial empowerment for all.



Recommendations



The widespread adoption of digital technologies and AI will make banking universally accessible, delivering inclusive, personalized and proactive services that empower and uplift individuals and businesses across the globe

Expectations by 2030

Leverage advances in generative AI to become your customer's best advocate and make interactions more relevant, accessible and efficient for all, large and small. Cleo, a generative- AI-powered money management tool, achieved \$150 million in annual recurring revenue last year by helping its 7 million customers develop better financial habits



Scale matters more than ever

Trend 2



As the gap between the biggest banks and their smaller rivals widens, scale is becoming the ultimate competitive edge in banking. It empowers institutions to achieve superior efficiency, harness diverse funding, and capitalize on emerging technologies to dominate markets and sustain profitability.

Recommendations



- 1) Agree on the segments and businesses you want to dominate and focus on gaining scale in each.
- 2) For sub-scale franchises, consider divesting or partnering with local scaled players.
- 3) For sub-scale franchises, consider divesting or partnering with local scaled players.

Expectation by 2030



Scale will define the winners in banking, with the largest institutions leveraging unmatched efficiencies, technological innovation and global reach to outpace competitors and reshape the financial landscape

A different way of working



Trend 3

Generative AI is set to revolutionize banking by transforming routine tasks, enhancing customer experiences and reshaping roles, much like spreadsheets did for business management. It is ushering in a new era of continuous change, human-AI collaboration and a profound shift in banking's workforce dynamics



Suggestions

Foster a culture of continuous learning by encouraging innovative problem-solving. Approach challenges from new angles, and challenge traditional methods to uncover better solutions.



Expectation by 2030

Generative AI will be fully integrated into every aspect of banking, automating routine tasks and fostering seamless collaboration between AI and human employees

KEY CONTRIBUTORS



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