

# The Financial Sector

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# Four Comments

- NPAs

- Banking

- NPAs

- Corporates

- NPAs

- RBI and Institutions

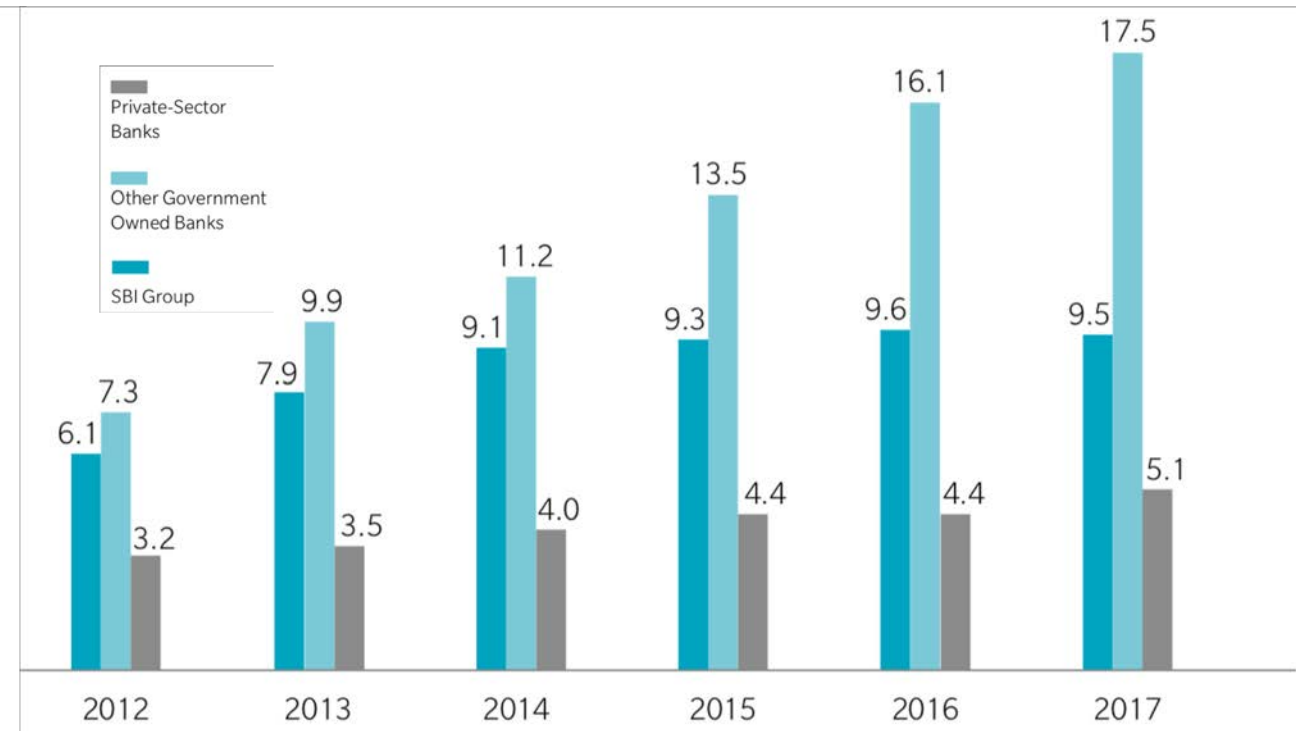
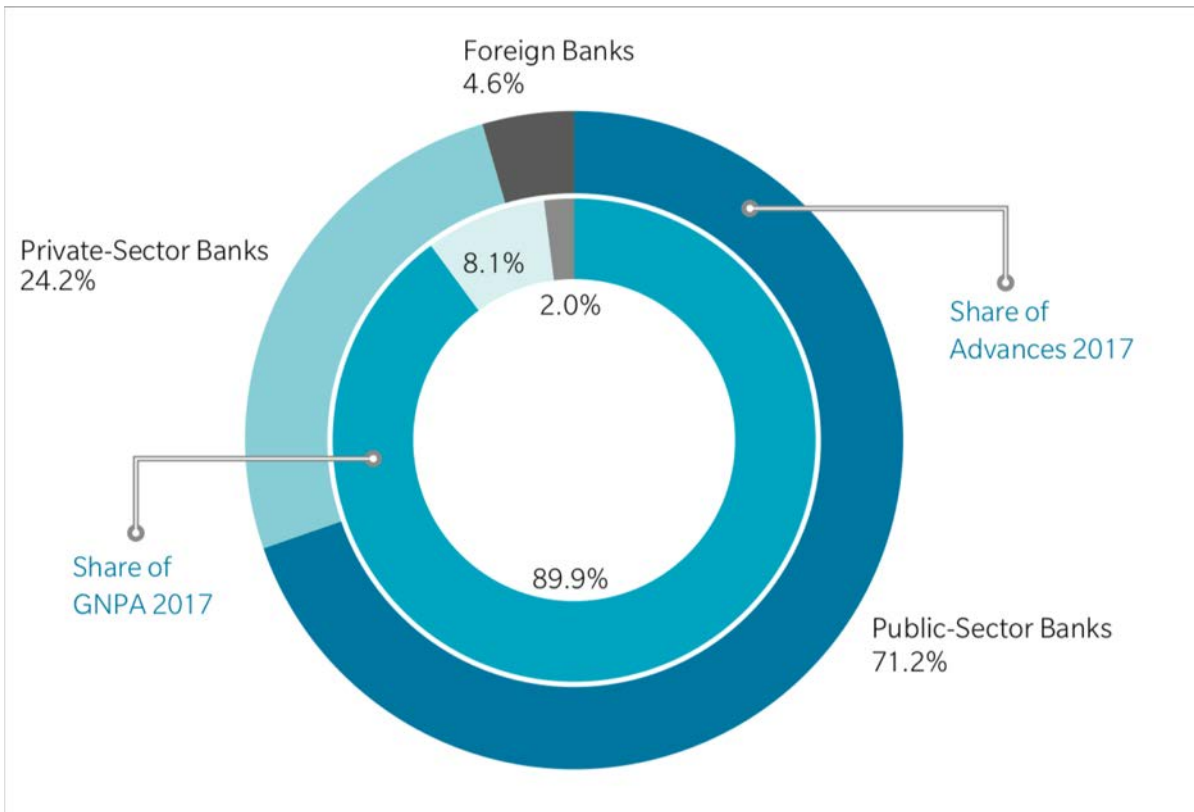
- NPAs

- Other Comments

# Banking: Too Big to Fail

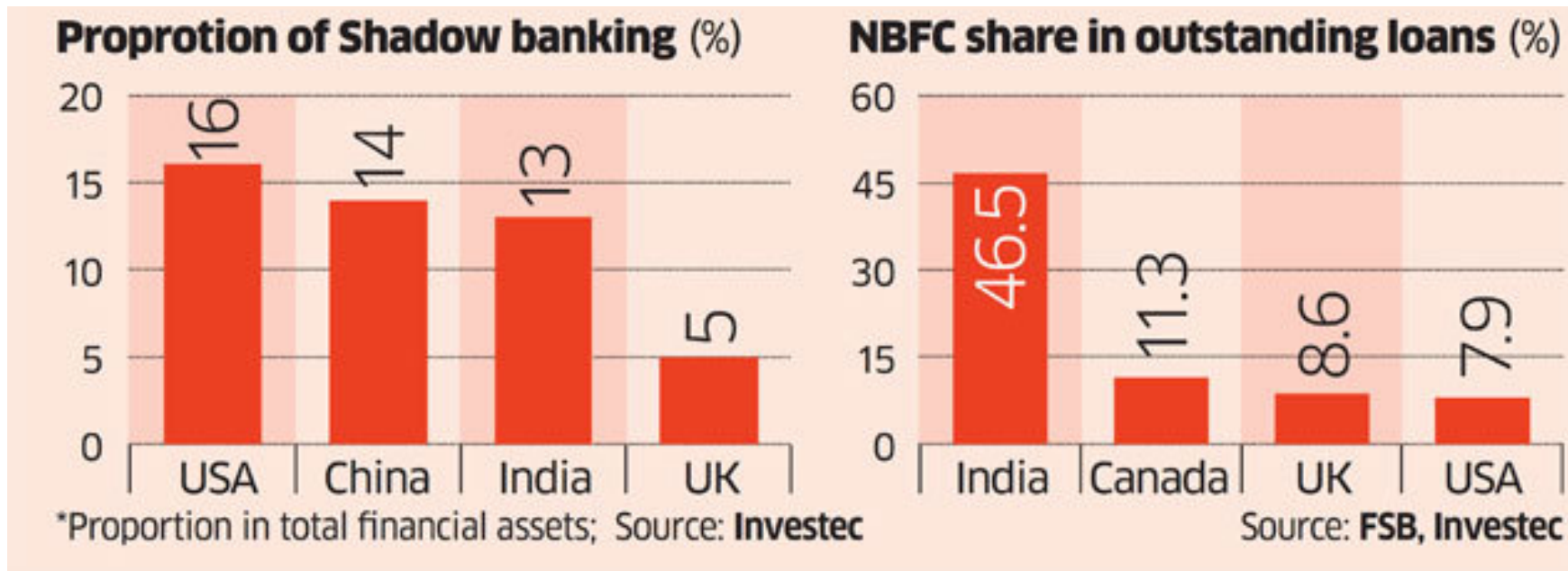
## ❑ Banks plagued by bad loans

- Bad loan banks also moderate majority of economic activity
- Not alone...Greece, Italy, Portugal, Spain, ...



# Banking: Too Big to Fail

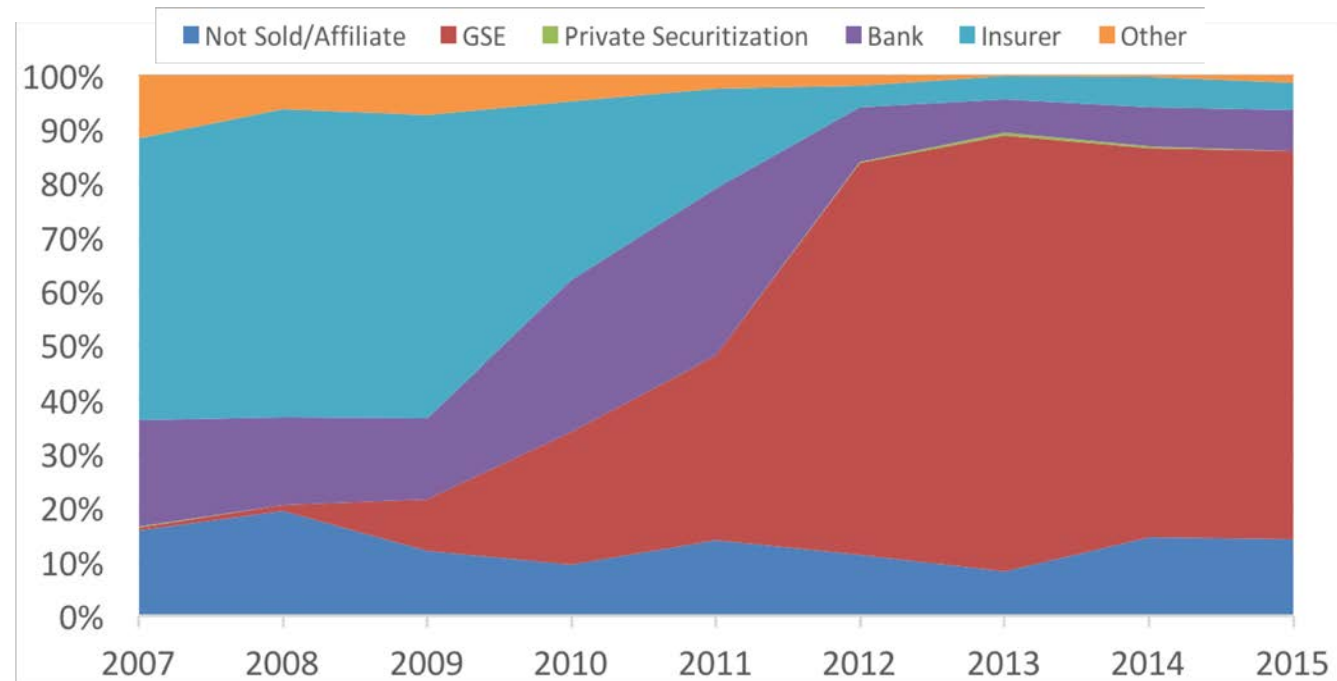
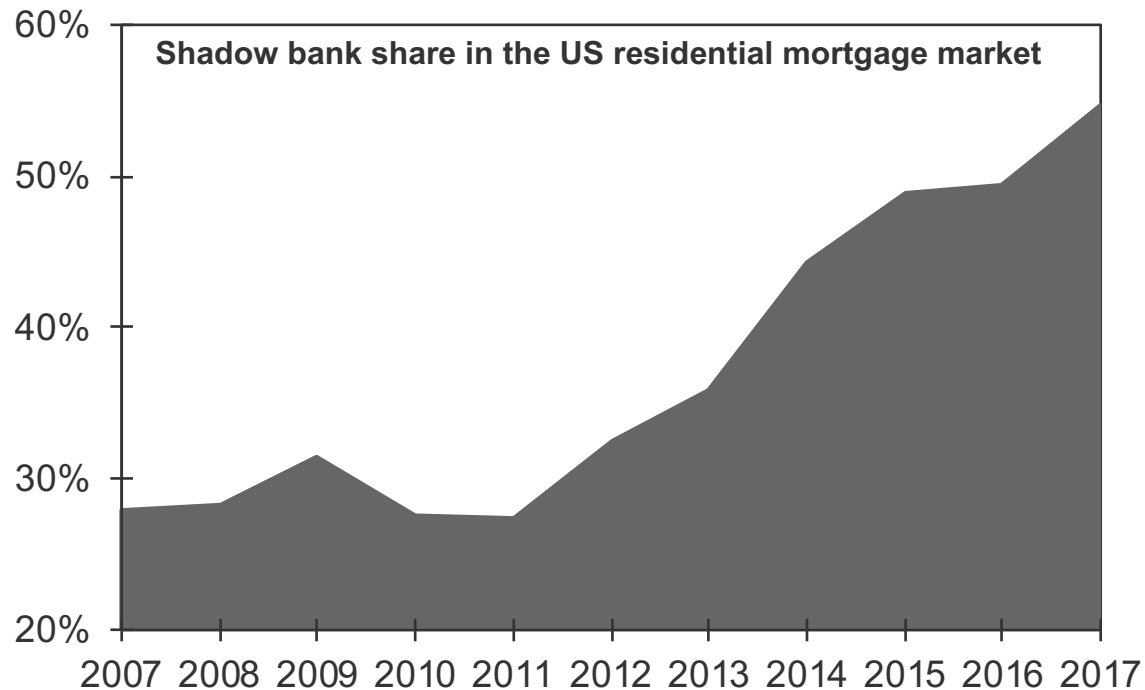
- ❑ Banks controlled by politicians/bureaucrats...why not restructure? liberalize? govern better?
  - Drugs...an election tool...(resources, votes, jobs...)
  - QE
- ❑ One option: Push on capital requirements, disclosure, supervision?
  - Surely...but pushed into shadows...and if go for shadow then moves to shadow (shadow)...



# Banking: Too Big to Fail

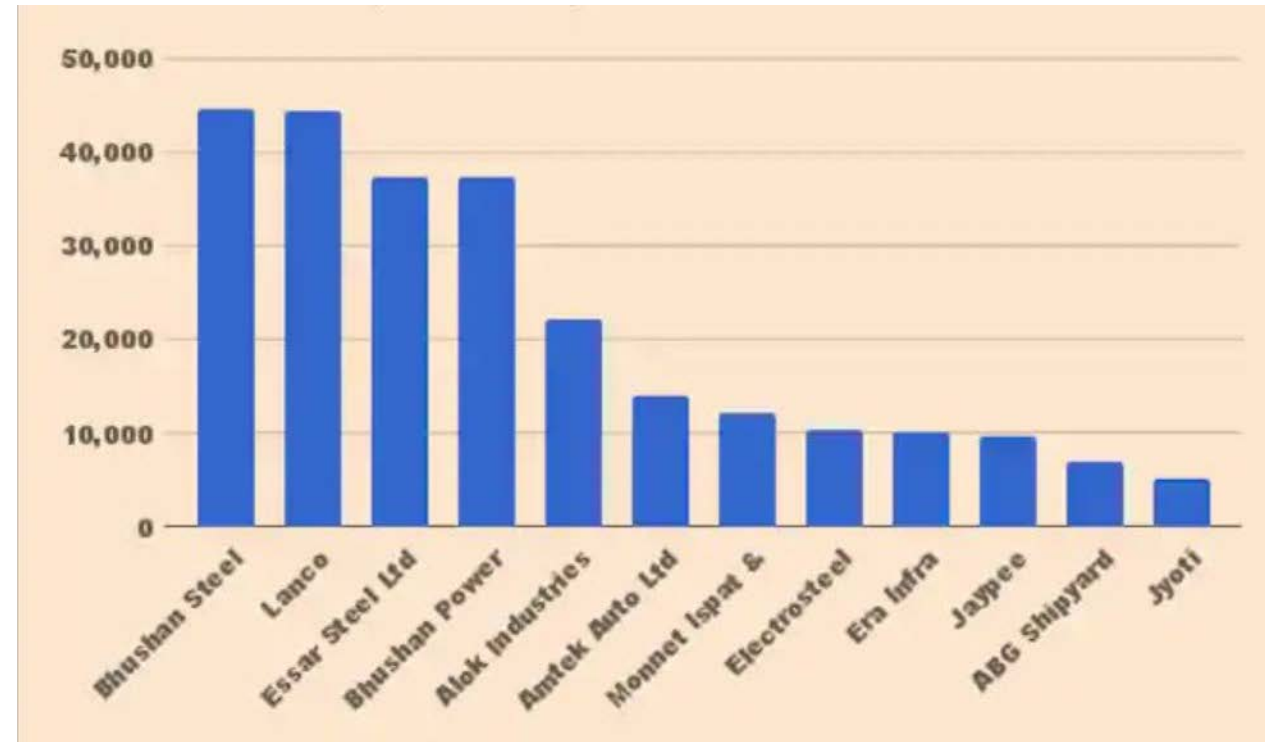
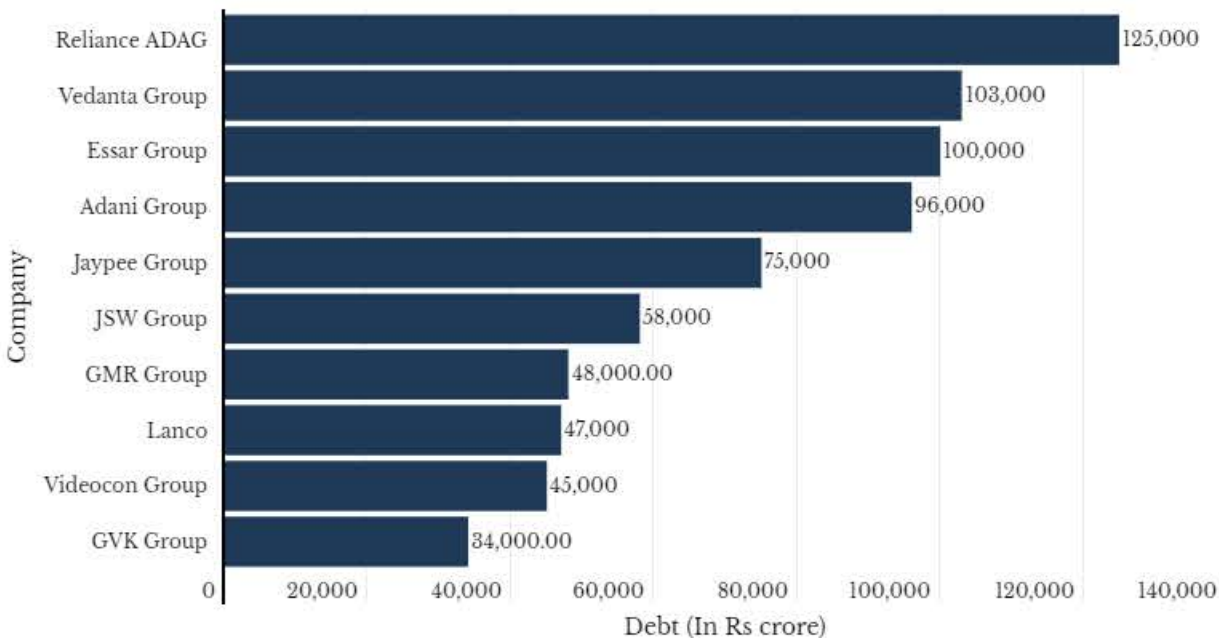
## □ Bright Side: The US way

- Tightened regulation on banks
- Everything resides with GSEs, now with a market share of 95%
- [Every country has their PSUs and looming/actual NPAs...a political economy problem](#)



# Corporates: Too Big to Name

- ❑ Big corporates take out most of the credit from banking sector
  - Given governance (e.g., creditor rights), debt and collateral based economy
  - Not too hard to isolate defaulters
  - ...but why is governance given?



# Corporates: Too Big to Name

## ❑ Name and Shame?

- Disclosure?

### Treatment Firms

Rank	Firm Name	Firm CRD	Misconduct Rate		
			2015	2018	Δ
1	OPPENHEIMER & CO. INC.	249	19.6%	18.6%	-1.0%
2	FIRST ALLIED SECURITIES, INC.	32444	17.7%	15.6%	-2.2%
3	WELLS FARGO ADVISORS FN, LLC	11025	15.3%	14.4%	-0.9%
4	UBS FINANCIAL SERVICES INC.	8174	15.1%	13.5%	-1.6%
5	CETERA ADVISORS LLC	10299	14.4%	16.4%	2.1%
6	SECURITIES AMERICA, INC.	10205	14.3%	13.8%	-0.5%
7	NATIONAL PLANNING CORP.	29604	14.0%	4.8%	-9.3%
8	RAYMOND JAMES & ASSOC., INC.	705	13.7%	12.3%	-1.4%
9	STIFEL, NICOLAUS & CO., INC.	793	13.3%	13.4%	0.2%
10	JANNEY MONTGOMERY SCOTT	463	13.3%	12.8%	-0.4%

# Corporates: Too Big to Name

## ❑ Name and Shame?

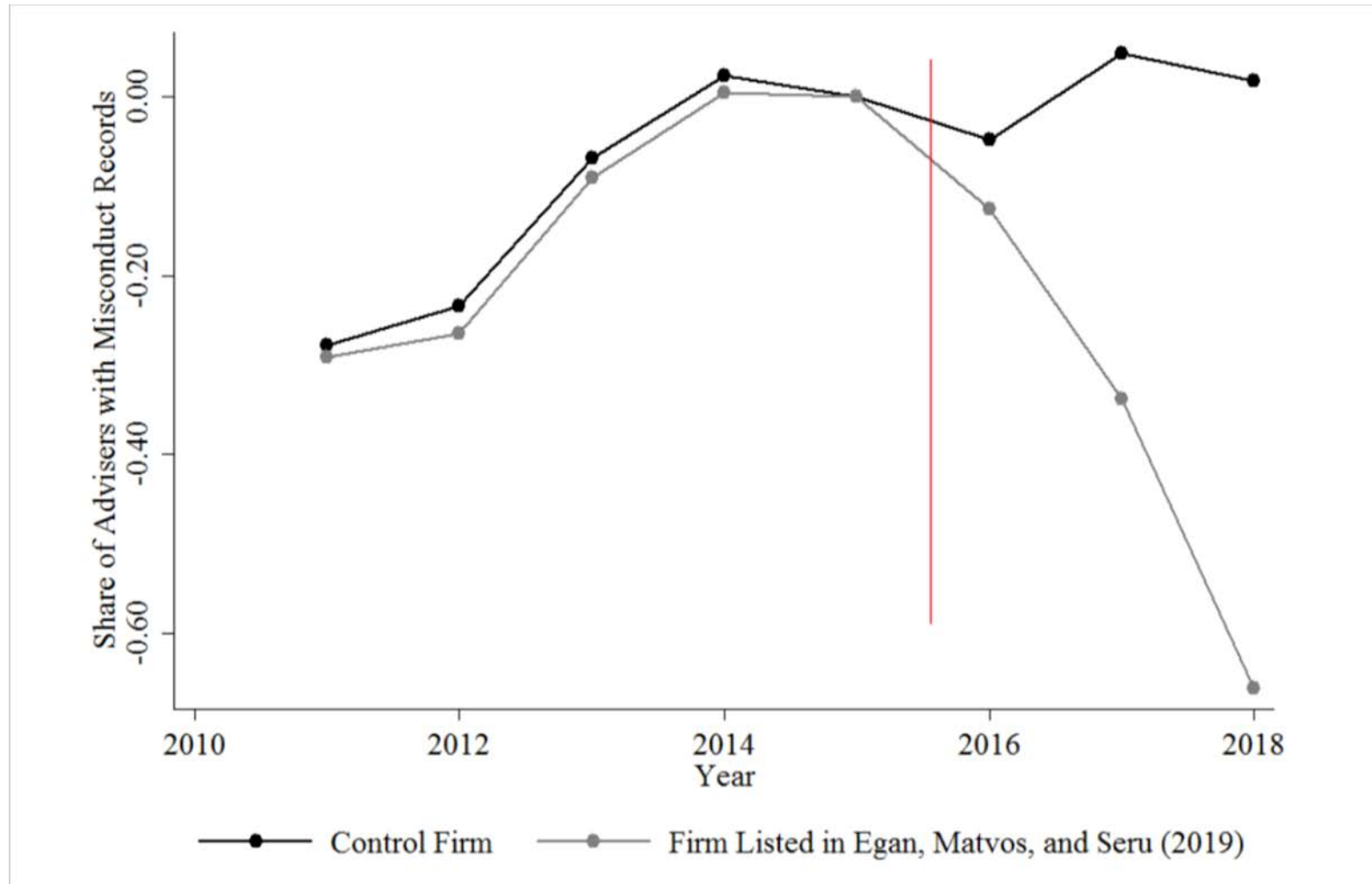
- Disclosure?

### Control Firms

Rank	Firm Name	Firm CRD	Misconduct Rate		
			2015	2018	Δ
31	MML INVESTORS SERVICES	10409	8.3%	9.6%	1.3%
32	SIGNATOR INVESTORS	468	8.1%	9.8%	1.7%
33	METLIFE SECURITIES	14251	8.1%	N/A	N/A
34	PROEQUITIES	15708	7.9%	8.1%	0.2%
35	NYLIFE SECURITIES	5167	7.8%	8.6%	0.8%
36	PRUCO SECURITIES	5685	7.8%	8.4%	0.6%
37	COMMONWEALTH FINANCIAL	8032	7.7%	7.2%	-0.4%
38	PARK AVENUE SECURITIES	46173	7.6%	8.84%	1.3%
39	HORNOR TOWNSEND KENT	4031	7.5%	8.4%	0.9%
40	VALIC FINANCIAL ADVISORS	42803	7.5%	7.1%	-0.4%



# Corporates: Too Big to Name



# Corporates: Too Big to Name

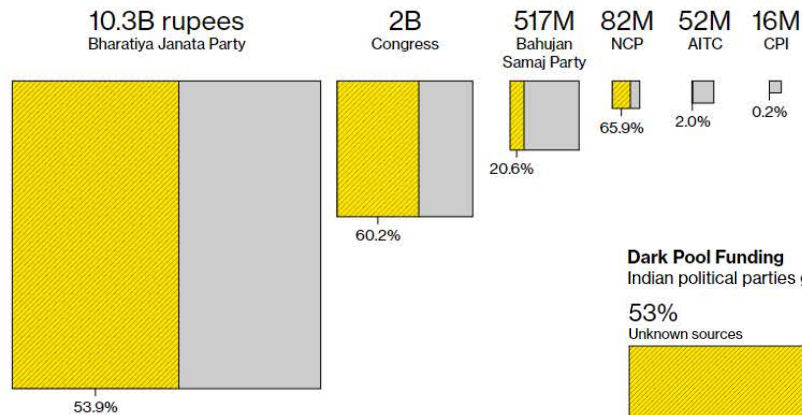
## Why is governance (and disclosure) weak and given?

- Every country has elections to fund
- ...a political economy problem

### Financial Dominance

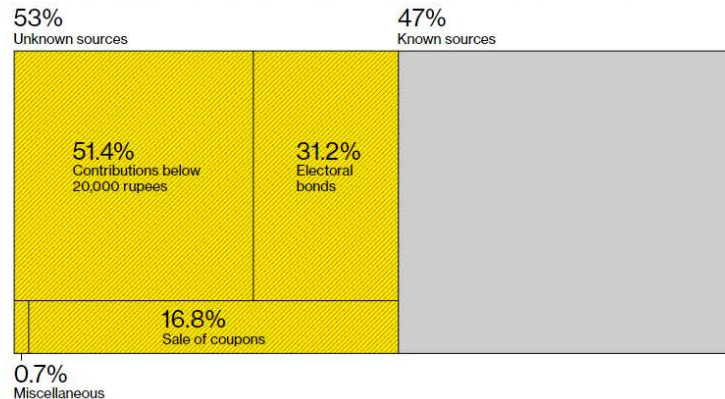
Modi's Bharatiya Janata Party earned the highest income among rivals in FY 2018

Income from unknown sources (Yellow) Known sources (Grey)



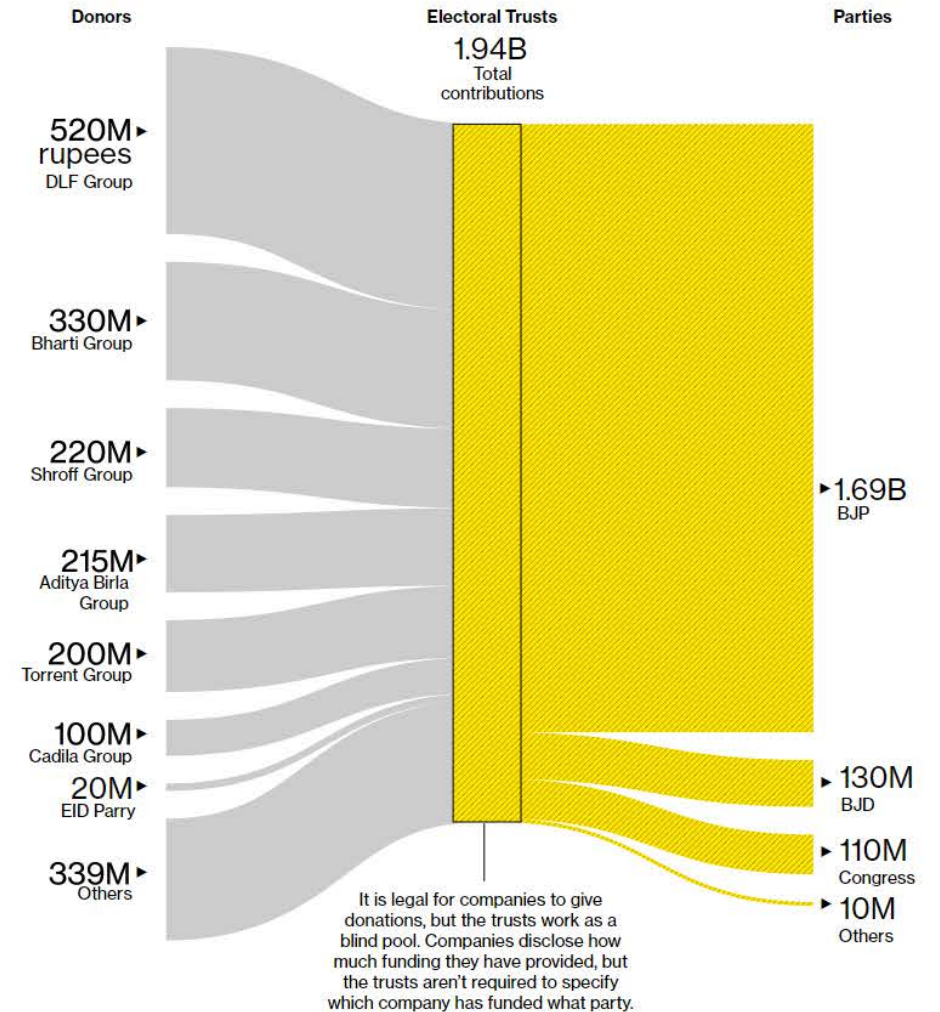
### Dark Pool Funding

Indian political parties got the bulk of donations from undisclosed sources in FY 2018



### Biggest Donors

These companies disclosed the most donations to political parties through electoral trusts



# RBI and Institutions

## □ Independence, Data and Analysis

- Data and analysis in an era of information overload...and *political slant*
- *...no longer about the "truth"*
- Demonetization and Newton's law of Gravity
- Best Practice: US Trade Policy and Brexit
- [...a political economy problem](#)

## □ Bankruptcy Laws and IBC

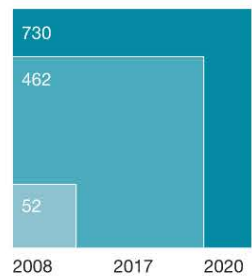
- Creditor recovery rates and time: Courts? Improvement in recovery rates?
- A good test: Size of PE activity (and change in secured and unsecured debt mix)
- *How well do assets reallocate? Best users of assets? Or best (connected) users of assets?*
- [...a political economy problem](#)

# Other Comments

## ❑ Movement towards digital banking/cashless economy

- Harmonization of data, security, privacy, cyber attacks...
- Every country in similar boat...[a political economy problem](#)

Internet connections, million



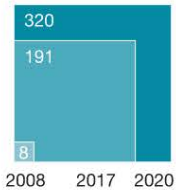
• **80%** of all Internet traffic is on mobile

• **30%** of Internet connections are in rural India

User distribution by age, %



Active social-media users, million



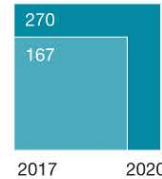
• **Facebook:** 150 million+ (2nd-largest customer base in world)

• **LinkedIn:** 30 million+

• **Twitter:** 23 million+

• **30%+** growth in digital-media revenues (2011-15)

Active mobile-social users, million



• **2.5 hours:** average daily time spent on social media

• **~7.5:** average number of apps per smartphone

Instant-messaging use, % of Indians with Internet



Traditional data sources, number and type

■ **940 million+**  
Aadhaar<sup>1</sup> registered numbers

- Name
- Age
- Address
- Photograph

■ **200 million+**  
Retail customers registered with credit bureaus

- Credit history
- RBI<sup>2</sup> defaulters list
- Employment details
- Customer information

■ **1 million+**  
Companies registered with the registrar

- Company details
- Balance sheet
- Profit and loss

■ **~50 million+**  
Employees' Provident Fund active subscribers

- Customer information
- Employment details
- Contribution status

■ **35 million+**  
Taxpayers registered (Form 26 AS)

- Income tax paid
- Employment history
- Customer information

■ **~90 million+**  
Liquid-petroleum-gas connections

- Customer information
- Number of connections
- Consumption history

New data sources, number and type

■ **40 million+<sup>3</sup>**  
E-commerce registered users

- Customer spending and payment history
- Supplier inventory and payment history

■ **250+<sup>4</sup>**  
Registered-financial-institution data

- SMS scraping of bank account
- Transaction data (eg, spending category)

■ **Others**  
Utility bills, insurance, car registration

- Utility bills, employee state insurance corp, car registrations, and customer information

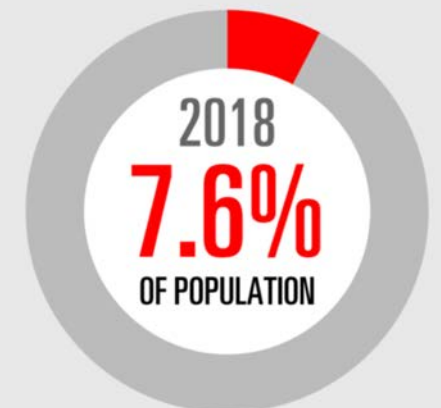
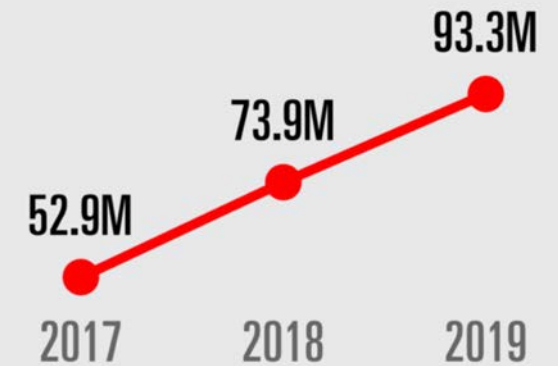
<sup>1</sup>A unique identity number issued to all Indian residents.

<sup>2</sup>Reserve Bank of India.

<sup>3</sup>Amazon, Flipkart, and Snapdeal have more than 40 million registered users.

<sup>4</sup>Perfios has signed up more than 250 financial institutions.

## How Many People in India Use Mobile Payments



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