

An assessment of the Indian financial services sector

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This assessment report, prepared for the International Labour Organization by Prof. Paresh Kumar Narayan, is intended to provide a rapid overview of the financial services sector in India and to stimulate discussions at the Tripartite Workshop to Promote Social Dialogue on Financial Services Reforms in Selected Asia and Pacific Countries (Jakarta, Indonesia, 5-6 August 2015). The views expressed in the report are not necessarily those of the ILO.

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1. Introduction

The report provides a rapid assessment of the Indian financial services sector. Specifically, the proposal consists of four sections. Section II provides the structure of the financial services sector. Section III discusses the potential effects of the global financial crisis. Section IV provides evidence on social dialogues, collective bargaining, and documents any relevant laws and regulations. The final section summarizes and proposes key recommendations. This report is based on an extensive desk research and a complete list of data sources is documented in Appendix A.

2. Structure of India's Financial Services Sector¹

The banking and financial system of any country plays a pivotal role in mobilizing credit for the rest of the economy and promoting its long term growth. The major components of India's financial systems are banking, insurance, and mutual funds. The contribution of the banking and insurance sectors to the country's GDP was 6% in 2008, with that contribution growing at 11.5% per annum in real terms during the 2001-08 period.

According to the report from National Skill Development Corporation (NSDC), India has 79 scheduled commercial banks out of which 28 are public sector banks, 23 are private banks, 28 are foreign banks, and 133 regional rural banks.² In addition, there are 1,853 urban cooperative banks, 4 term lending institutions, 18 state finance corporation, and 13,014 non-bank companies. A KPMG (2000) report on the Indian banking sector suggests that the Indian banking industry could become the world's fifth largest banking industry by 2020 and the third largest by 2025 due to the country's high GDP growth rate.

Total scheduled commercial bank assets increased by 25%, while their deposits increased by 23% during the period 2007-2008. Between 2009-2010 and 2012-2013, bank deposits grew from USD 710 billion to 1.1 trillion; bank credit from USD 510 to 830 billion; per-capita credit surged from USD 450 to 690, indicating a strong appetite for bank credit; the credit-deposit ratio grew from 74% to 79% (largely controlled by RBI); and the banking sector had 109,811 branches by the end of 2012-2013.

¹ This section mainly draws on the report from NSDC: Human Resource and Skill Requirements in the Banking and Financial Services Insurance Industry. <http://iosrjournals.org/iosr-jbm/papers/Vol16-issue4/Version-3/A016430106.pdf>

² In India, the term a "scheduled bank" refers to a bank which is listed under the 2nd Schedule of the Reserve Bank of India Act, 1934. They include private, foreign and nationalized banks. Banks not on the schedule are called non-scheduled banks.

³ *Emily Frost (2015): India's Banking and Insurance Sectors*. Retrieved <http://internationalbanker.com/banking/indias-banking-and-insurance-sectors/>

⁴ Resham Beri, Banking & Financial Services Industry. Retrieved <http://info.shine.com/industry/banking-financial-services/8.html>

Together with other countries in the Asia-Pacific region, India is considered as an important global player in the insurance industry. In 2014, the insurance sector constituted approximately 4% of the country's GDP. Currently, the insurance industry of India consists of 52 insurance companies of which 24 are life insurance business and 28 are non-life insurance businesses. India has a large insurable population exceeding 550 million, which is a major attraction for investment in the sector.

Finally to the mutual fund sector; there are more than 40 funds that manage hundreds of schemes in the Indian mutual fund industry. In 2015, the mutual funds in India have assets under management valued at more than 1.2 million crores.⁵

Employment in India Banking and Financial system

Employment in the financial services sector grew rapidly in the past decade. Consider Table 1, below, which reports the employment growth of sectors in India. The financial services sector (combined with business services, as desegregated data is unavailable) is always either first or second highest growth sector. In the period from 1999-2000 to 2004-2005, employment in this sector increased by 90.6%. This growth was 3.5 times higher than the average for all sectors and about 1.5 times higher than the second highest growth sector, construction. From 2004-2005 to 2009-2010, the employment growth rate in this sector was recorded at 30.4%, second only to construction and significantly higher than any other sector.

Table 1. Employment growth rate by sector

| Sectors | 2004-2005 to 2009-2010 | 1999-2000 to 2004-2005 |
|-------------------------------|-------------------------------|-------------------------------|
| Agriculture | -8.2% | 15.2% |
| Mining | 4.7% | 27.7% |
| Manufacturing | -6.3% | 43.4% |
| Electricity & Gas | -5.3% | 32.5% |
| Construction | 70.0% | 65.0% |
| Trade & Hotel | 4.5% | 37.3% |
| Transport & Storage | 10.8% | 43.3% |
| Financial & Business services | 31.4% | 90.6% |
| Public admin, Social services | 5.4% | 25.5% |
| Total | 0.4% | 25.3% |

Table 2, below, considers the employment of different segments of the financial services sector for the latest year for which data is available. The total employment in this industry was between 4 to 4.5 million. The most employees were in the financial intermediaries segment—that is, between 65-70% of total industry employment. The shares of the insurance segment was about 5% while that of the non-banking and mutual funds segments were less than 1% of the total industry employment.

⁵ A crore is equivalent to Indian rupees 10 million.

Table 2. Employment in segments of the financial services sector, 2008

| Industry Segments | Total employment (in thousands) | % of total |
|--------------------------|----------------------------------|------------|
| Banking | 1100-1200 | 25-30% |
| Insurance | 200-300 | 4-5% |
| NBFC | 25-30 | 0-1% |
| Mutual funds | 15-20 | 0-1% |
| Financial Intermediaries | 2500-3000 | 65-70% |
| Total | 4000-4500 | 100% |

3. Potential effects of the Global Financial Crisis

The Indian economy before the global financial crisis grew at around 8.8% per annum. In the 2008-2009 period growth slowed down to about 6.7%. India's economy is dependent on what happens to its trading partner countries. The impressive part was the recovery of the India economy; economic growth rebounded to 8.6% in the 2010-2011 period, making India the second fastest growing economy in the region, second only to China. Therefore, India's economy was affected negatively but this effect was only short-term, and the effect on the financial services sector was subdued.

According to a Thomas White report (2011)⁶, only one bank in India succumbed to the global financial crisis, mainly because one of its overseas subsidiaries had made an opportunistic bet on debt issued by the failed investment bank Lehman Brothers. Although the market valuations of all the leading banks in India fell as equity prices tumbled, their core businesses were largely unaffected and their balance sheets remained healthy (Thomas White, 2011). Indian banking and its financial system weathered the crisis due to a number of reasons. First, as Sinha (2011) argues, the Indian banking system did not have any direct exposure to subprime mortgage assets or any significant exposure to any of the failed institutions. In addition, the recent growth in both the economy and the financial system has been predominantly driven by domestic consumption and investment. Second, the Indian government has been proactive, implementing a number of policies aimed at mitigating the repercussions of the crisis on the financial system (Bajpai, 2011)⁷. For example, the government provided three focused fiscal stimulus packages in the form of tax relief to boost demand and increase expenditure on public projects to create employment and public assets. Furthermore, India's central bank (the Reserve Bank of India) implemented a number of monetary easing and liquidity enhancing measures to ensure the flow of funds from the financial system to meet the needs of productive sectors.

⁶ Thosmas White (2011) BRIC Spotlight Banking Sector in India: Counting on Credit Growth. <http://www.thomaswhite.com/pdf/bric-spotlight-report-india-banking-april-2011.pdf>

⁷ Bajpai, N., (2011) Global Financial Crisis, its Impact on India and the Policy Response, Asian Development Bank <http://aric.adb.org/grs/papers/Bajpai.pdf>

4. Sectoral Industrial Relations, Collective Bargaining and Industrial Organizations

Type of collective bargaining in India

In India, collective bargaining has been defined by the Supreme Court as “the technique by which dispute as to conditions of employment is resolved amicably by agreement rather than coercion”. It is a process of discussion and negotiation between employer and workers regarding terms of employment and working conditions. Workers are generally represented by trade unions with respect to expressing their grievance concerning service conditions and wages before the employer and the management. Nishith Desai Associates (2015)⁸ report that collective bargaining agreements in India are divided into three classes:

- Bipartite (or voluntary) agreements: are drawn up in voluntary negotiations between the employer and the trade union.
- Settlements: are tripartite in nature, as they involve the employer, trade union and conciliation officer.
- Consent awards: are agreements reached while a dispute is pending before a compulsory adjudicatory authority, and incorporated into the authority’s award.

Typically, clauses in the memorandum of settlement pertain to the following:

- Term/duration of the memorandum of settlement as may be agreed between the parties
- Settlement terms which, typically, may be with respect to wages, benefits, allowances, arrears with respect to payment to workers, concessions, works hours, overtime etc.
- Conditions with respect to strikes and lockouts by trade unions and employers respectively
- Obligations of workmen
- Obligations of employer
- Penalties with respect to non-compliance of the obligations of workmen and employers
- Dispute resolution
- Miscellaneous

⁸ Nishith Desai Associates (2015) India: Trade Unions and Collective Bargaining. http://www.nishithdesai.com/fileadmin/user_upload/pdfs/Research%20Papers/India-Trade-Unions-and-Collective-Bargaining.pdf

Recent collective bargaining demands by workers in the Indian banking sector

There are two recent examples of collective bargaining from United Forum of Bank Unions (UFBU) sent to India Bank's Association in December 2013⁹. The collective bargaining demanded for the following:

1. Immediate wage revision.

"....Consequently, revision of wages and other service conditions have become due as from 1-11-2012. In view of this, as per the decision of the United Forum of Banks Unions, common set of demands for the employees and officers was submitted to the Indian Banks Association on 30-10-2012...."

"....Similarly, the workload in the bank branches has gone up substantially due to increase in total volume of business and also due to non-provision of adequate staff and officers in the branches. Employees and officers are working under a lot of stress and strain. The job profile of the staff has also undergone a change and all these require to be properly remunerated with adequate increase in wages. For this reason also the wage increase has become important..."

2. Stop banking sector reforms.

"....The Discussion Paper also proposes that the Banks may resort to merger of Banks to become international Banks. Our Banks are meant for our own economic development and hence this is clearly unwarranted. Further merger has its own adverse implications to the detriment of the employees and officers working in the Banks...."

"....A developing country like India needs a very strong, vibrant and well-regulated banking system and attempts to de-regulate them in the name of reforms is wrong with serious consequences. Hence, our demand to stop the above mentioned banking reforms."

Worker Industrial Organizations in the Banking Sector

United Forum of Bank Unions (UFBU) is an umbrella organization comprising nine employees' association/union in the banking sector. The UFBU represents employees in banking system in India, including commercial banks, the Reserve Bank of India, the National Bank for Agriculture and Rural Development (NABARD), regional rural banks and co-operative banks. These unions fight for benefits of banking employees such as achieving higher pay and better working conditions. It also acts as a voice for employees and represents them in collective bargaining negotiations. The list of nine associations/unions in the banking sector within UFBU is as follow:

- All India Bank Employees' Association;
- All India Bank Officers' Confederation;
- National Confederation of Bank Employees;
- All India Bank Officers' Association;
- Bank Employees Federation of India;
- Indian National Bank Employees Federation;

⁹ http://www.iba.org.in/Documents/strike_notice_dt_2_12_2013.pdf

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- Indian National Bank Officers Congress;
 - National Organisation of Bank Workers; and
 - National Organisation of Bank Officers.

5. Summary

The financial services sector contributes an impressive 11.5% to India's GDP. It employs a significant number of people. The sector survived the effects of the global financial crisis. It has a well-established industrial relationships setup. Yet there are many aspects of the sector which are unknown. Simply put, data on disaggregated employment (by gender) in the sector is unavailable. It is also unclear how effective unions are in negotiating wages and work conditions for employees and what role they play following layoffs. This report forms the view that more studies are needed, particularly case studies, which examine at least the following. (1) How exactly the Indian financial services sector was affected following the global financial crisis? While it is true that at the macro-level the effect has been minimal, there are likely to be organizations affected by the crisis. This needs further research. (2) What role do unions play in cases of layoffs or other types of conflicts in the sector? (3) What is the gender composition in the sector when it comes to employment, wages/salaries, and recruitment?

Appendix A. Data sources

| Relevant information | Name of documents | Sources |
|---|---|---|
| 1. Structure of national financial services sector and its development. | Banking & Financial Services Industry | http://info.shine.com/industry/banking-financial-services/8.html |
| | Growth of Financial Sector in India | http://business.mapsofindia.com/sectors/financial/growth.html |
| | Banking and Finance Industry Growth in 2015 Year | http://www.recruitingblogs.com/profiles/blogs/banking-and-finance-industry-growth-in-2015-year |
| | Indian Banking – The engine for sustaining India's growth agenda | http://www.kpmg.com/IN/en/IssuesAndInsights/ArticlesPublications/Documents/KPMG_ICC_Indian_Banking_The_engine_for_sustaining_Indias_growth_agenda.pdf |
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| | BFSI | http://glpc.guj.nic.in/pride/ADMINUI/Resourcefiles/Res66Banking%20Finance%20Services%20Insurance.pdf |
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| | BFSI Segment – Employment Opportunities | https://bankerschoice.talentsprint.com/articles/bfsi-segment-employment-opportunities |
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| Soundness Indicator of Banking Industry | | http://www.dnb.co.in/bfsisectorinindia/BankC5.asp |
| Indian Banking – The engine for sustaining India's growth agenda | | http://www.kpmg.com/IN/en/IssuesAndInsights/ArticlesPublications/Documents/KPMG_ICC_Indian_Banking_The_engine_for_sustaining_Indias_growth_agenda.pdf |
| 3. Sectoral social dialogue and collective bargaining in the country | India: Trade Unions and Collective Bargaining | http://www.nishithdesai.com/fileadmin/user_upload/pdfs/Research%20Papers/India-Trade-Unions-and-Collective-Bargaining.pdf |
| | Collective Bargaining in India: Recent Trends | http://www.amrc.org.hk/content/collective-bargaining-india-recent-trends |
| | HR & Industrial Relations | http://www.iba.org.in/Documents/strike_notice_dt_2_1_2_2013.pdf |
| | IBA signs agreement, bank employees' salaries to increase by 15 percent | http://www.financialexpress.com/article/industry/banking-finance/iba-signs-agreement-bank-employees-salaries-to-increase-by-15-percent/76329/ |
| 4. Redundancy, Layoffs and Social protection | Banking Job Loss Survey | http://www.uniglobalunion.org/sites/default/files/attachments/pdf/Job_Losses_and_Restructuring_%20Summary.pdf |
| | HR & Industrial Relations | http://www.iba.org.in/Documents/strike_notice_dt_2_1_2_2013.pdf |
| | IBA signs agreement, bank employees' salaries to increase by 15 percent | http://www.financialexpress.com/article/industry/banking-finance/iba-signs-agreement-bank-employees-salaries-to-increase-by-15-percent/76329/ |