Financial Services

NOVEMBER
2011

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Financial Services

NOVEMBER 2011

Contents

Advantage India

Growing demand

- Rising incomes are driving the demand for financial services across income brackets
- Financial inclusion drive from RBI has expanded the target market to semi-urban and rural areas

Innovation

- Cross-utilisation of channels to expand reach of financial services
- Product innovation is leading to healthy growth in Insurance and NBFCs

Advantage India

Growing penetration

- Credit, insurance and investment penetration is rising in rural areas
- HNWI participation is growing in the wealth management segment

Policy support

- NRFIP, aims at providing comprehensive financial services, to at least 50 per cent of financially excluded households by2012
- Government has set up Financial Inclusion Fund and Inclusion Technology Fund to support financial inclusion

2010

National savings USD539 billion

2016E

National savings USD1455 billion

Source: World Bank

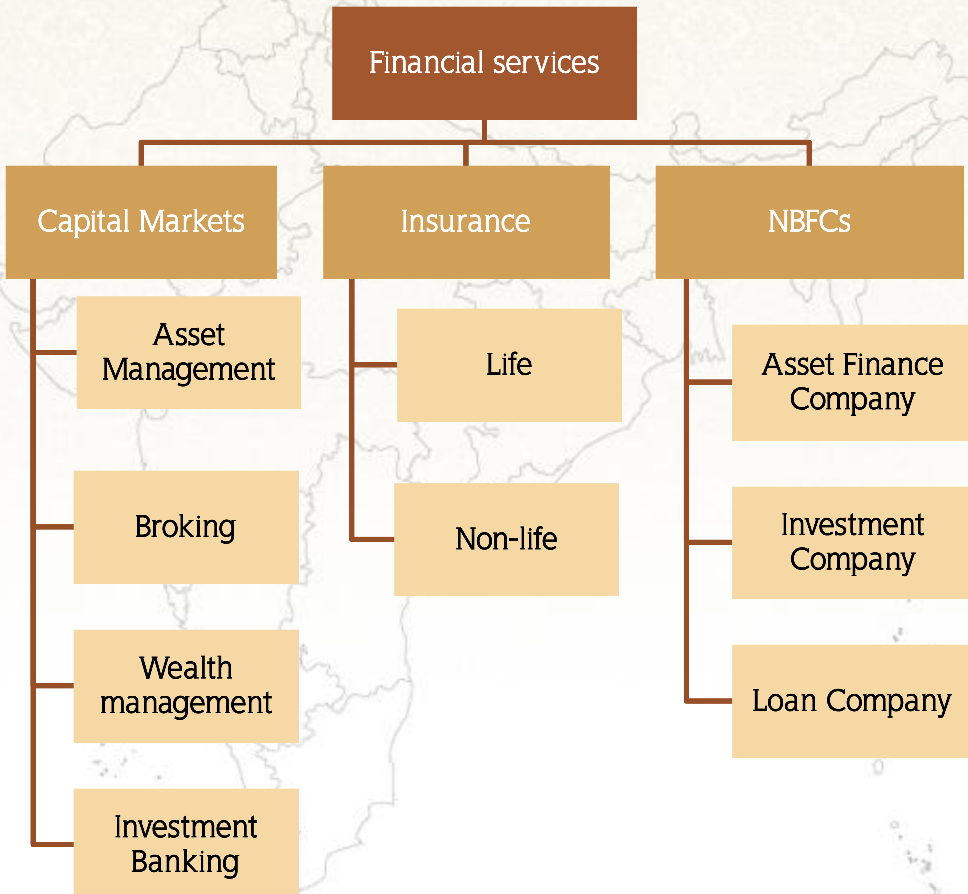
Notes: HNWI – High net worth individual, NBFC – Non-banking financial company , E – Expected, NRFIP – National rural financial inclusion plan

Financial Services

NOVEMBER 2011

Contents

Segments of the financial services sector



NBFC: Non banking financial company

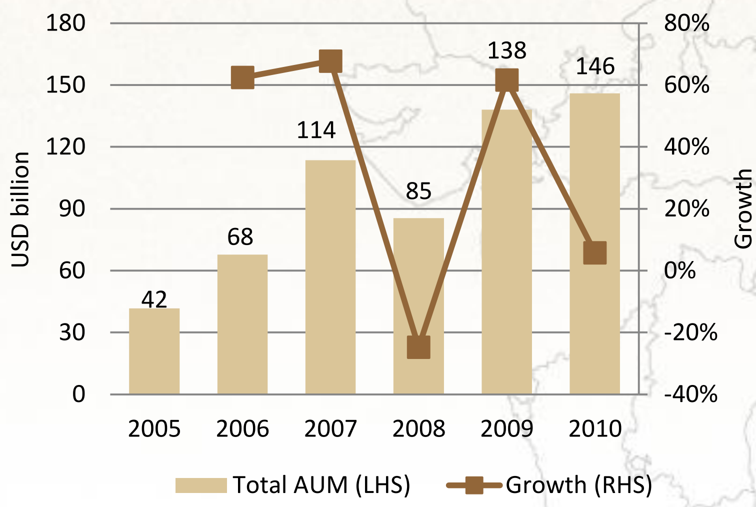
Asset management: Grown four-fold in past five years … (1/2)

- Asset management industry in India is among the fastest-growing in the world
- Total AUM have clocked a CAGR of 28 per cent over the period 2005 to 2010
- The global recession in 2008 led to a dip in the total AUM. However, the industry rebounded to 30 per cent higher AUM than pre-recession levels in a period of two years from 2008 to 2010
- Corporate investors account for nearly half of the total assets under management in India, while retail investors account for one-fourth of the whole
- AUM in India is expected to increase by 57 per cent during 2010-14

Notes: CAGR – Compounded annual growth rate; AUM – Assets under management

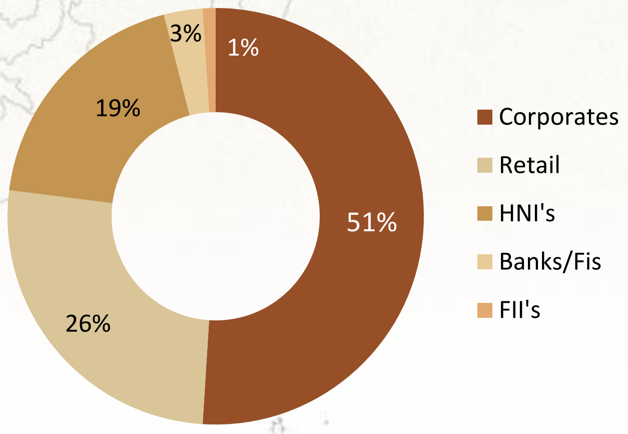
Asset management: Grown four-fold in past five years … (2/2)

Mutual Fund AUMs 2005-2010



Source: : AMFI, Aranca Research

Investor breakup, March 31,2010



Source: AMFI, Aranca Research,

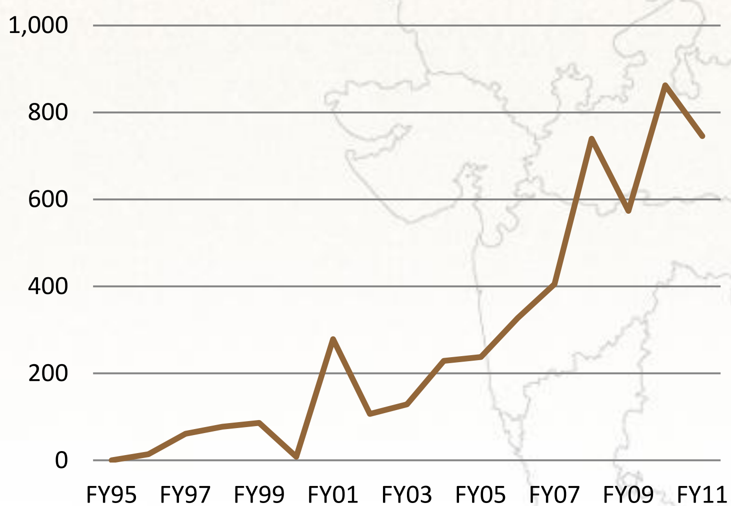
Brokerage: Rising turnover has led to rapid growth … (1/2)

- Steadily rising turnover in the market has led to rapid expansion of the brokerage segment
- The annual turnover value in NSE has witnessed a CAGR of 30 per cent over past 15 years
- The number of registered stocks grew to 8,804 from 8,652 over 2008-10. The number of registered sub-brokers rose to 83,952 in FY11 as against 62,471 in FY09
- Number of companies listed on the NSE rose from 422 to 1574 over the period 1995-2010
- Gross purchases by Foreign Institutional Investors, at USD176 billion in FY10, significantly enhances the total transaction activity in the Indian markets
- Brokerage market is getting more competitive with entry of more players as well as with increasing efforts of players to gain market share

Notes: CAGR – Compounded annual growth rate;
NSE – National Stock Exchange

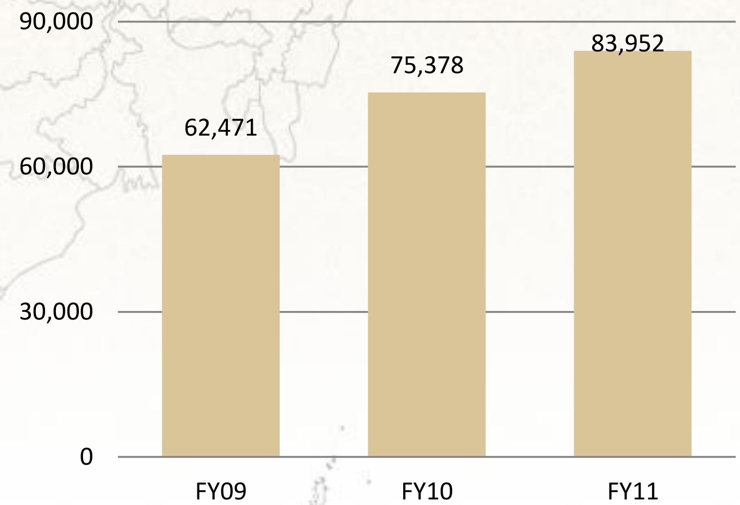
Brokerage: Rising turnover has led to rapid growth … (2/2)

Growth in turnover for equity market segment



Source:: National Stock Exchange, Aranca Research

Registered sub-brokers as on March 31



Source: SEBI, Aranca Research

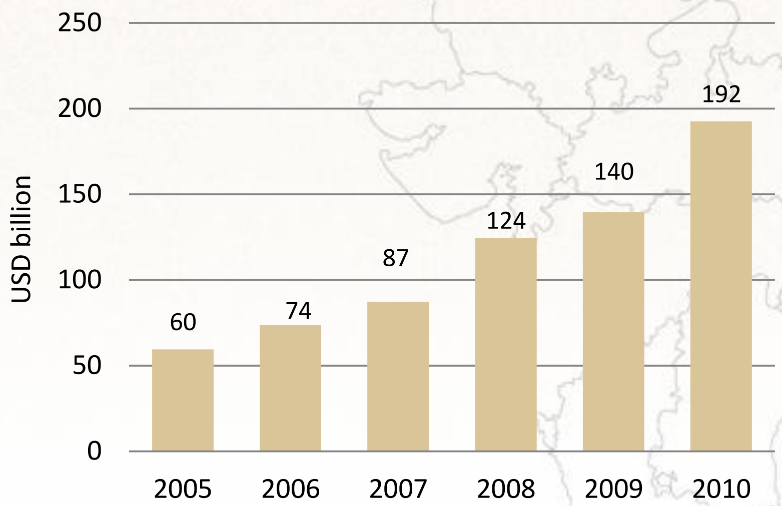
Wealth management: An emerging segment … (1/2)

- HNWIs – the primary focus of wealth management industry – are estimated to have close to USD200 billion worth of liquid investable assets
- The investable assets of HNWIs in India has grown at a healthy 26 per cent CAGR over 2005-10
- At present the size of wealth management industry in India is estimated to be USD20-40 billions, which represents 10-20 per cent of total investable HNWI assets
- Advisory asset management and tax planning is the most demanded wealth management services among HNWIs, followed by financial planning
- Organised segment of the wealth management industry is rapidly gaining ground, indicating that the sophisticated players are gaining client confidence

HNWI – High net worth individuals

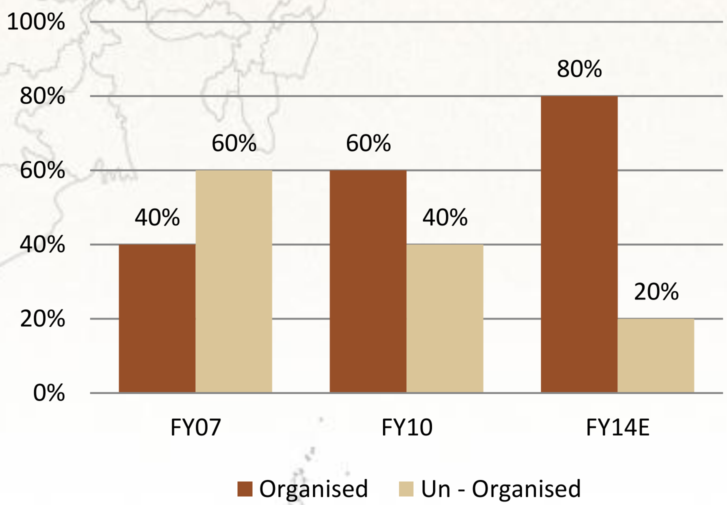
Wealth management: An emerging segment … (2/2)

Total HNWI liquid assets



Source: World Bank, Datamonitor, Aranca Research

Organised and unorganised segments

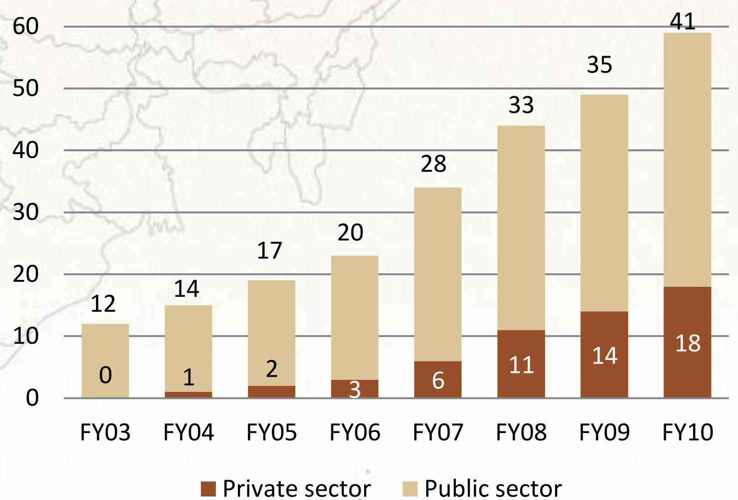


Source: Industry reports, Aranca Research

Insurance: Both life and non-life segments rising … (1/2)

- The life insurance market has grown from USD12 billion in 2003 to USD59 billion in 2010
- Over 2003-10, life insurance premiums have increased at a CAGR of 25 per cent

Growth in life insurance premiums

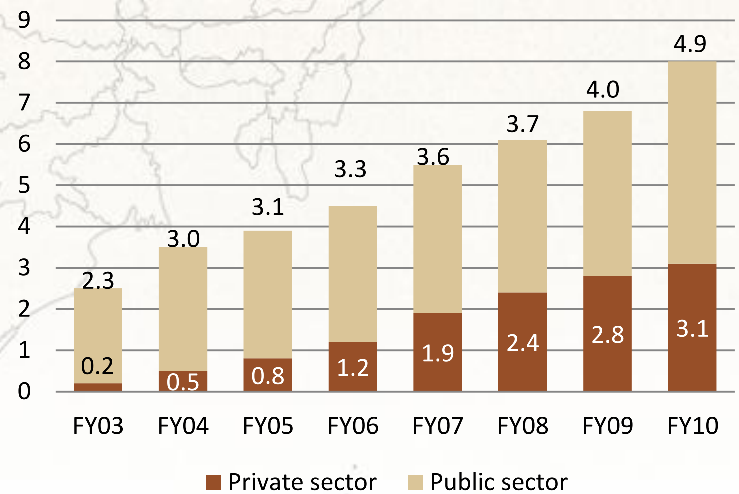


Source: IRDA, Aranca Research

Insurance: Both life and non-life segments rising … (2/2)

- The non life insurance market has grown from USD2.5 billion in 2003 to USD8 billion in 2010
- Over 2003-10, non life insurance premiums have increased at a CAGR of 18 per cent

Growth in non life insurance premiums



Source: IRDA, Aranca Research

NBFC: Making a mark in retail finance domain … (1/2)

- NBFCs are rapidly gaining prominence as intermediaries in the retail finance space
- More than 80 per cent of equipment leasing and hire purchase activity in India is financed by NBFCs
- The AUM of NBFCs in retail finance has doubled over the period 2007-10. Going forward the AUM is expected to double again over the period 2010-13
- In terms of market share in retail finance (except housing finance) space, NBFCs have been able to improve their market share from 26 per cent to 38 per cent over 2007-10
- By 2013, the NBFC share of retail finance (except housing finance) is expected to rise to 47 per cent, almost at par with the market share of banks

Notes: AUM: Assets under management; NBFC: Non banking financial company

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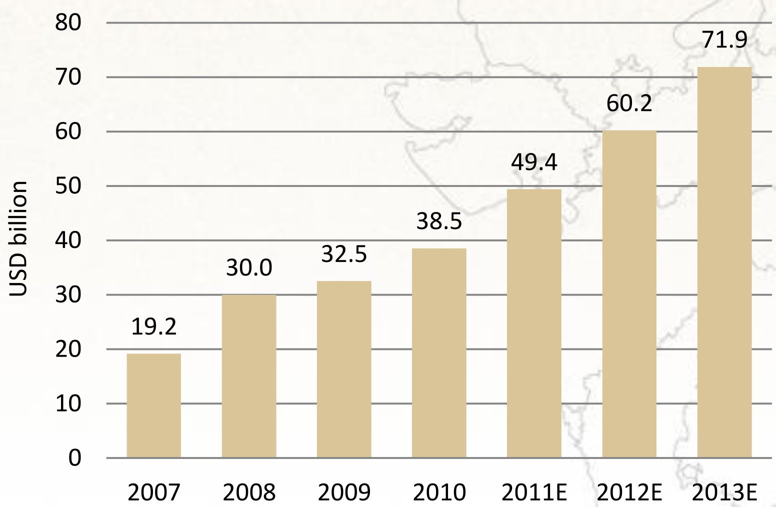
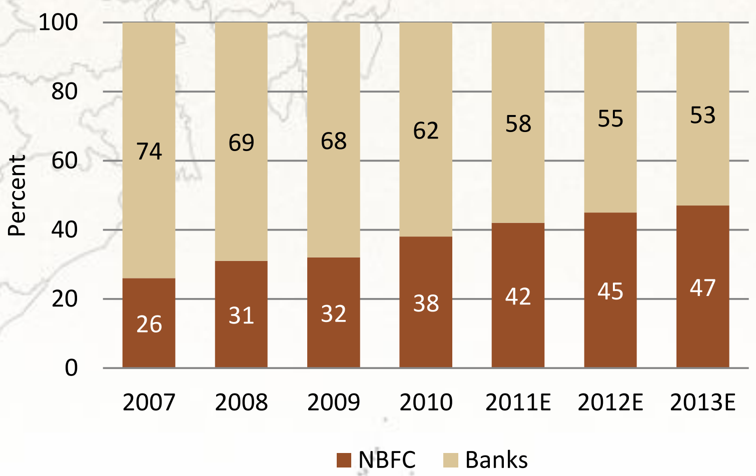
NBFC: Making a mark in retail finance domain … (2/2)

Growth in AUM of retail NBFCs



Source: CRISIL, Aranca Research

Share of NBFCs and banks in retail finance (ex-housing)



Source: CRISIL, Aranca Research

Notable trends in the financial services sector

Insurance sector

- New distribution channels like bancassurance, online distribution and NBFCs have widened the reach and reduced the operational costs
- The life insurance sector has witnessed the launch of innovative products such as Unit Linked Insurance Plans (ULIPs)

Mutual Fund

- India's AUM has grown at 28 per cent CAGR over 2005-2010, and the total AUM stood at USD146 billion as of March 31, 2011. The AUM of equity and balanced funds, focus segments of retail investors, grew by 20 per cent CAGR in the same period
- In FY09, SEBI has removed the entry load to bring about more transparency in commissions, and thereby encourage longer-term investment

NBFCs

- NBFCs has been serving the unbanked customers by pioneering into retail asset backed lending, lending against securities and microfinance
- NBFCs are aspiring to emerge as a one-stop shop for all financial services

Financial Services

NOVEMBER 2011

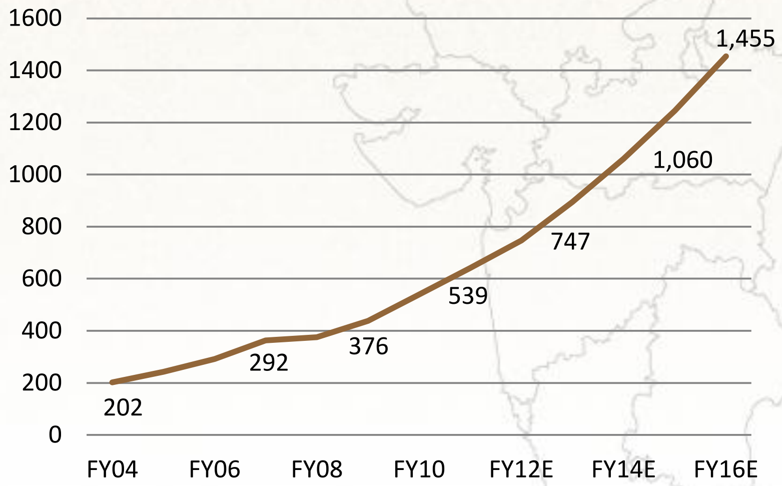
Contents

Gross national savings to continue growing at a healthy pace … (1/2)

- The size of Indian gross national savings stood at USD539 billion in 2010 and it is expected to touch USD1,455 billion mark in 2016
- Over 90 per cent of household savings are invested in bank deposits and only 10 per cent in other financial asset classes. Innovative and customised products are expected to shift bank deposits to these asset classes.
- The quantum of savings that Indians are making is set to present immense opportunities for financial intermediaries to move savings to more productive channels
- India's HNWIs wealth is expected to grow at a CAGR of 12 per cent and will reach close to USD949 billion by 2015

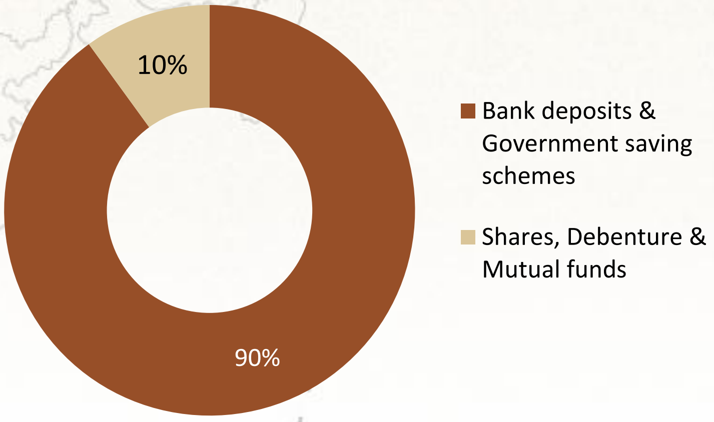
Gross national savings to continue growing at a healthy pace … (2/2)

Gross national saving (USD billion)



Source: IMF

Indian household Investments (2010)

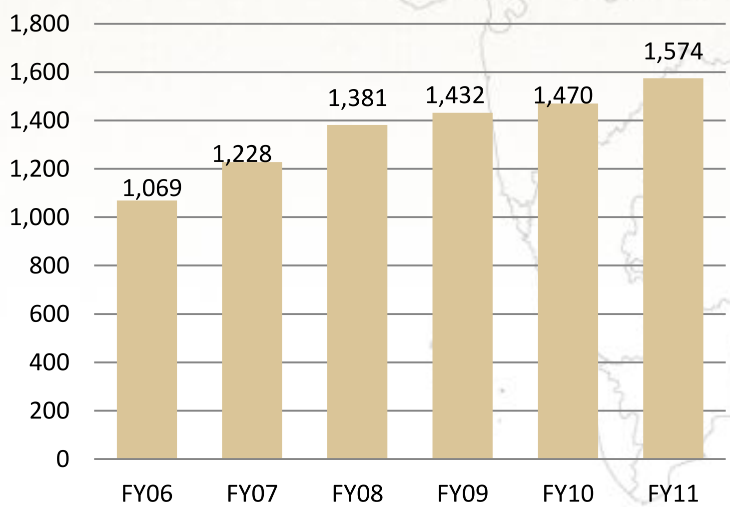


Source: Opportunities & Challenges Indian Financial Markets (PWC) Report, Aranca Research

Continued growth in equities and innovative products

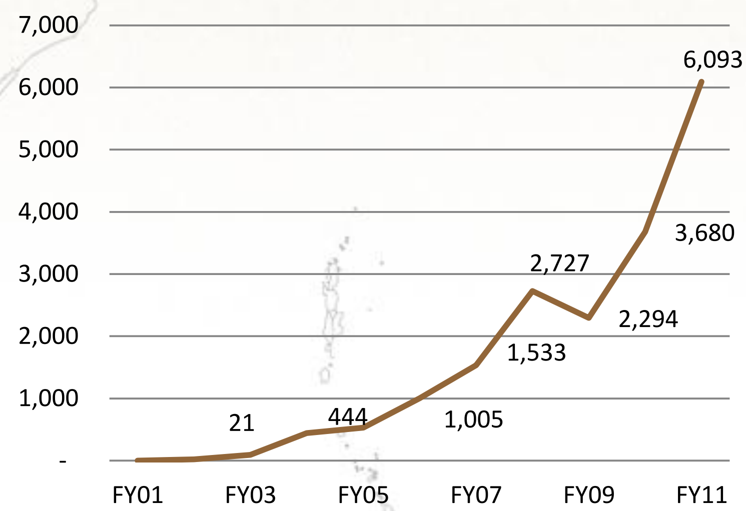
- Indian equity markets is expanding in terms of listed companies and market cap, widening the playing field for brokerage firms
- Sophisticated products segment is growing rapidly, reflected in the steep rise in growth of derivatives trading
- With the increasing retail penetration there is immense potential to tap the untapped market. Growing financial awareness is expected to increase the fraction of population participating in this market

Number of listed companies - NSE



Source: National Stock Exchange, Aranca Research

Growth in turnover for derivatives segment



Source: National Stock Exchange, Aranca Research

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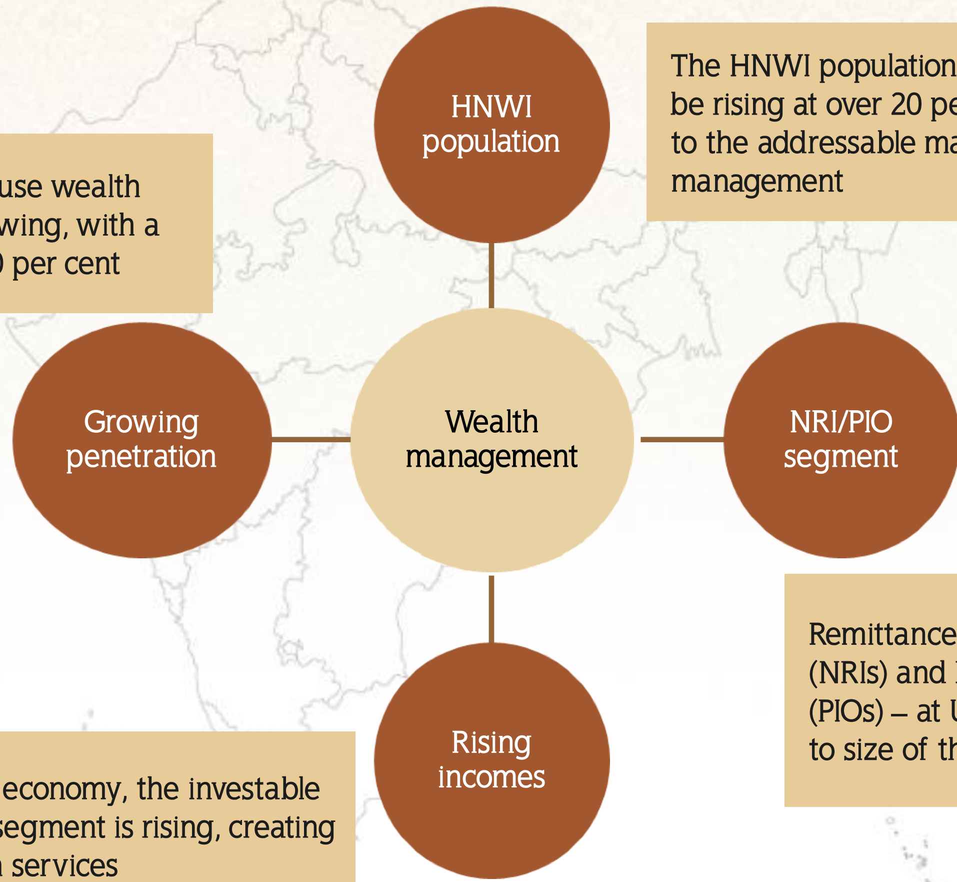
Wealth management to ride the wave of rising liquid assets

The HNWI population in India is estimated to be rising at over 20 per cent annually adding to the addressable market of wealth management

The fraction of HNWIs who use wealth management services is growing, with a current estimated level of 20 per cent



Remittances from Non-Resident Indians (NRIs) and People of Indian Origin (PIOs) – at USD55 billion in 2010 – adds to size of the segment

With a fast rising economy, the investable wealth of HNWI segment is rising, creating a need for wealth services

Insurance to benefit from widening reach across segments

Insurance

Auto / Engineering

Rising number of passenger cars, insurance for construction activity will rise with India's infrastructure growth plans

Micro-insurance

Targeted at rural segment, potentially addressing two-thirds of Indian population
Policy incentives to drive growth

Agriculture

Demand for agricultural and livestock insurance growing on the back of rising awareness among rural population

Health

Only 1 percent population covered currently, suggesting that the vast market is yet to be tapped. Health insurance accounts for 1.2 percent of total healthcare spend

Financial Services

NOVEMBER 2011

Contents

Success stories … (1/4)

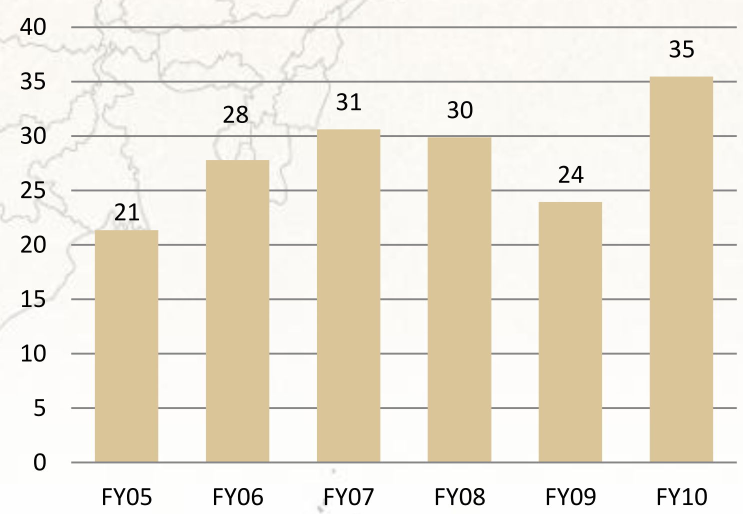
UTI Asset Management Company Ltd

Established in 2003, appointed by UTI Trustee Co, Pvt Ltd for managing the schemes of UTI Mutual Fund

- Divisions –Domestic mutual funds, Portfolio Management Services, Venture Capital and Private Equity Funds
- Features – Domestic schemes: 82

  AUMs: USD14 billion

  Number of employees: 1,144
- Recognition –
  - Best Large Cap Fund (Morningstar Fund:2011)
  - Most Innovative Investor Education Initiative Swatantra (Bloomberg UTV: 2011)



Source: Company website, Aranca Research

Success stories … (2/4)

Motilal Oswal Financial Services Limited

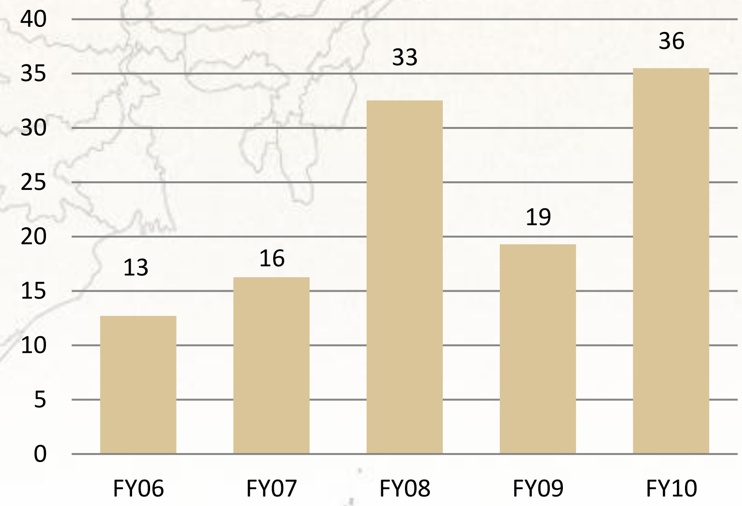
Established in 1987, Motilal Oswal Financial Services Limited provides various diversified financial services in India

- Divisions – Broking and Distribution, Institutional Equities, Investment Banking, Asset Management, Wealth Management and Private Equity
- Features – Market share (Equities) : 3.2 per cent

  No of registered customers: 709,041

  Business Locations: 1,644 locations
- Recognition –
  - Best Performing Equity Broker (CNBC TV18 Financial Advisor Awards - 2010)

Net profit (USD million)



Source: Company website, Aranca Research

Success stories … (3/4)

Muthoot Finance Limited

Muthoot Finance Limited is the largest gold financing company in India in terms of loan portfolio. The company provides personal and business loans secured by gold jewellery

- Divisions – Financing, Power Generation and FM Radio
- Features –No of branches: 2,611

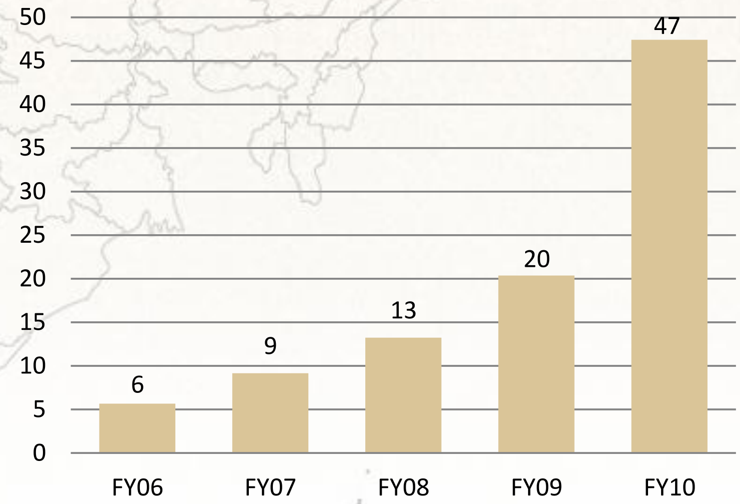
  Gold loans under management: USD1.5 billion

  Number of employees: 9,745
- Ratings –

  'P1+' rating for short term debt (CRISIL)

  'A1+' rating for short term debt (ICRA)

Net profit (USD million)



Source: Company website, Aranca Research

Success stories … (4/4)

Kotak Mahindra Old Mutual Life Insurance Ltd

Established in 2000, Kotak Mahindra Old Mutual Life Insurance Ltd offers life insurance products in India. It is a 74:26 joint venture between Kotak Mahindra Bank Ltd, its affiliates and Old Mutual Plc

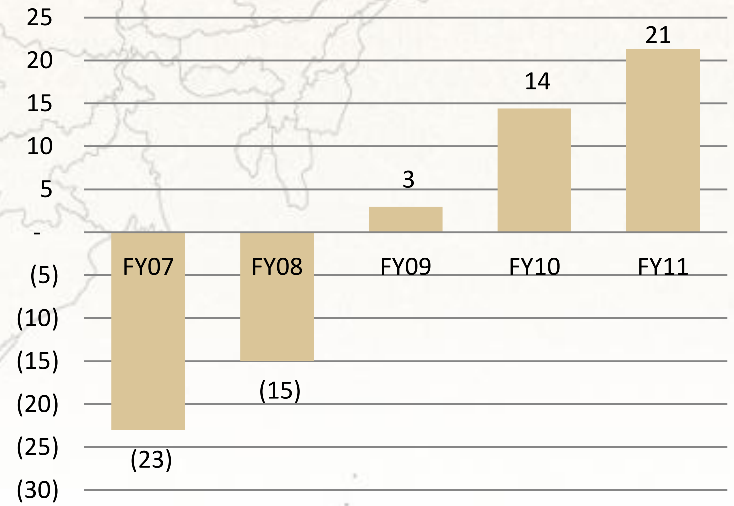
- Plans – Protection Plans, Savings and Investment Plans, Retirement Plans, and Child Plans
- Features – No Of Customers covered: 5,47,321

  AUMs: USD1.8 billion

  Number of employees: 5,565

  No of branches: 197

Net profit (USD million)



Source: Company website, Aranca Research

Financial Services

NOVEMBER 2011

Contents

Huge untapped potential at the 'bottom of the pyramid' …

- Two-third of India's population lives in rural areas where financial services have made few inroads so far. Rural India, however, has seen steady rise in incomes creating an increasingly significant market for financial services
- There are several stand-alone networks of SHG, NGO's , MFI's in different parts of rural India. Cross-utilisation of these channels can facilitate faster penetration of a wider suite of financial services in rural India
- Increasing use of technology to reach rural India is the paradigm-shifting enabler. Internet kiosk based channels are expected to become the bridge that connects rural India to financial services

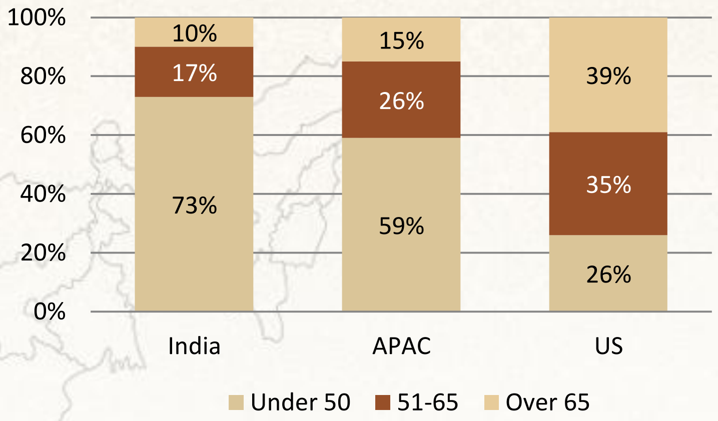
MFI – Micro finance institutions; NGO – Non governmental organisation; SHG – Self help groups

Credit	• Rural credit segment is a large market, which can be tapped by ensuring timely loans which are critical to agricultural sector • Self Help Groups and NGOs are useful vehicles to make inroads into rural India
Investments	• Safe investment options have a potential to tap into rural household savings • Some private players are coming up with innovative products like third-party money market mutual funds to cater to rural investment needs
Insurance	• Agricultural, livestock and weather insurance are potentially large markets in rural India • Harnessing existing networks of MFIs, NGOs can speed up the process

… as well as at the other end of the spectrum

- India is one of the fastest growing wealth management markets in the world
- The HNWI population in India is young and therefore more receptive towards sophisticated financial products
- In addition to over 50,000 HNWIs with USD200 billion worth of assets, India has over 2.5 million wealthy individuals whose liquid assets are close to another USD500 billion

Demographic age-wise breakup of HNWIs (2010)



Source: Datamonitor, Aranca Research

Investor protection	• The regulatory environment for fiduciary duties in wealth management is evolving; players will benefit greatly from quickly adopting new investor protection measures
Brand building	• Brand building coupled with partnership based model will improve the advisory penetration. Greater focus on transparency will speed up the process
Innovation	• Investment in required technologies, imbibing state-of-the-art best practices of advisory and creating customised and innovative products will enable growth

Financial Services

NOVEMBER 2011

Contents

Industry Associations

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Glossary

- **AUM:** Assets Under Management
- **BSE:** Bombay Stock Exchange
- **CAGR :** Compound Annual Growth Rate
- **FII's:** Foreign Institutional investors
- **GDP:** Gross Domestic Product
- **HCV:** Heavy Commercial Vehicle
- **HNWIs :** High-net-worth Individuals
- **IRDA :** Insurance Regulatory and Development Authority
- **LIC:** Life Insurance Corporation
- **NBFCs:** Non Banking Financial Company
- **NSE:** National Stock Exchange
- **RBI:** Reserve Bank of India
- **SEBI:** Securities and Exchange Board of India
- **USD:** US Dollar
  - Conversion rate used: USD1= INR 48

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