KIRTANE & PANDIT

WHEN FOREIGN BANKS FAIL TO SCALE

Lessons from India's Lending Market

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EXECUTIVE SUMMARY

India's retail and MSME lending market is both the most attractive growth opportunity in global banking and one of the hardest to win. Total banking sector credit stands at approximately ₹207 lakh crore, and the majority of India's 7 crore-plus small businesses still lack reliable access to formal credit, a gap that no institution has come close to filling. The banks that have performed best here demonstrate what is possible: State Bank of India reported a net profit of ₹70,901 crore in FY25, and HDFC Bank reported ₹67,347 crore. Both reflect decades of branch networks, borrower relationships, and earned regulatory trust. These advantages cannot be acquired quickly and set a high bar for any new entrant.

The size of the opportunity has repeatedly attracted institutions that underestimated how difficult the market is to access. Foreign banks held 8.5% of Indian banking assets in FY18 but have decreased to 6% by FY25, not due to bad luck, but because their models did not align with the realities of mass-market lending in India. Domestic bank failures, from cooperative lenders to some private sector banks, demonstrate that being Indian offers no immunity when internal controls fail. Across both groups, the reasons for failure are more alike than they initially seem.

This report analyses such failures or material withdrawals across two segments — foreign bank retreats and domestic bank & NBFC stress episodes — guided by a single overarching question: What is the deciding variable? The evidence assembled points to four root causes that influence nearly every case. The first is economies of scale: the costs of acquiring customers and serving them profitably only become manageable at a certain level of reach, which takes years to develop. The second is governance deficit: the most severe collapses were caused by weak credit controls and boards that could not hold management accountable. The third is regulatory misalignment: institutions that treat today's rules as permanent tend to be badly exposed when rules change. The fourth is business model fragility: many entrants have built models that succeed only under specific conditions, and when those conditions shift, what initially seems like a headwind turns out to be a fundamental flaw in the design.

A fifth and deeply underappreciated factor cuts across all these cases: the role of trust and long-term commitment. Institutions that succeeded in India's banking market — HDFC Bank, ICICI Bank, SBI, and a handful of foreign banks that have found sustainable niches — did so not only because of structural advantages but also because they demonstrated, over many years, a durable commitment to serving Indian customers on Indian terms. The trust of depositors, regulators, and borrowers is not a soft factor; it is the precondition for all other competitive advantages, including deposit franchise, low-cost funding, and regulatory goodwill. The institutions that exited or failed generally did so because they never built this trust — or because they actively eroded it through governance failures.

These causes do not act independently; they reinforce one another, making this market far more challenging than the headline growth figures suggest. The following chapters analyse each failure cluster in detail to demonstrate how these causes manifest in real-world situations. The goal is not merely to document what went wrong but to clearly identify what is truly required to build a sustainable, profitable business in India's retail and MSME lending market.

1. INDIA'S RETAIL & MSME BANKING LANDSCAPE: THE COMPETITIVE BACKDROP

Section Highlights

India's retail and MSME banking market offers enormous structural opportunity, but its competitive dynamics systematically favour deeply embedded incumbents over new or sub-scale entrants.

- Total banking sector credit exceeds ₹207 lakh crore, while the MSME formal credit gap is estimated at ₹25–30 lakh crore — signalling unmet demand that has persisted despite decades of policy effort.
- Foreign banks' share of banking assets has declined from 8.5% in FY18 to 6% by FY25, even as domestic banks like HDFC and SBI post record profits — a paradox explained by the structural moats of branch density, CASA deposits, and regulatory trust.
- UPI has transformed banking economics but reinforces incumbents: banks with large CASA bases generate credit underwriting data from UPI transactions, further widening the competitive gap with new entrants.

1.1 The Size of the Opportunity

India's banking sector entered the second half of this decade carrying both exceptional momentum and unresolved structural tensions. Total scheduled commercial bank credit passed ₹200 lakh crore during 2025, representing a compound annual growth rate of around 14% over the preceding five years. Public sector banks, which were written off as irreparably weakened by the NPA crisis of 2015-2018, have undergone a remarkable balance sheet repair, with gross NPAs significantly improving. Private sector banks, meanwhile, have used the intervening decade to build distribution networks, digital capabilities, and deposit franchises that have transformed the competitive landscape.

India's retail and MSME lending market is large and growing. Total banking sector credit is around ₹207 lakh crore, but the MSME credit gap - what small businesses need versus what the system provides - is about ₹25-30 lakh crore, according to IFC and SIDBI. This gap indicates a structurally underserved market, despite decades of policy efforts, priority mandates, and new entrants.

India's unmet demand reflects its economic structure. MSMEs, which make up 30%+ of GDP, have 6.5 crore units registered and employ 28 crore, yet most rely on informal credit because formal lenders find them costly, opaque, or risky. India's credit-to-GDP ratio of 57% is much lower than China's (180%) and Thailand's (120%), indicating significant potential. The challenge is in qualifying lenders for this market.

The retail segment tells a similar story. India has one of the fastest-growing middle classes in the world, a median age below 29, and rising demand for home loans, financing for consumer durables, and credit cards. Yet credit penetration at the household level remains uneven. The credit penetration is deep in major metros, thin in smaller cities, and negligible across most of rural India. The unmet need is real. So is the cost of reaching it.

1.2 The Structure of Competition

The Indian banking system is heavily dominated by public sector banks, with the State Bank of India alone operating over 25,000 branches nationwide. This extensive network, developed over decades, reaches districts where private and foreign banks are absent. The public sector system includes hundreds of thousands of contact points via branches, correspondents, and post office links. This isn't just distribution; it underpins a deposit franchise that funds lending at lower costs than private or foreign banks.

Private banks in India, led by HDFC, ICICI, and Axis Bank, have grown significantly over 30 years, now competing with public sector banks in urban and semi-urban areas. They typically have better efficiency ratios, modern technology, and sophisticated retail products. Their long-standing presence includes extensive branch networks and multi-product customer relationships. HDFC Bank's credit card dominance highlights this: after Citibank exited India in 2023 with 35 branches, HDFC absorbed most of its credit card portfolio. This shift shows how quickly a foreign bank's retail operations can be integrated into an existing infrastructure, especially since Citi had been in India for over a century, and its retail exit took months to manage.

Foreign banks typically operate with 17 to 35 branches nationwide, such as Deutsche Bank with 17 and Citi with 35. At this size, competing for mass-market retail or MSME deposits isn't feasible because deposit economics rely on density - branches must gather enough low-cost deposits to fund lending. Structural barriers, such as RBI branch licensing and the unattractiveness of Tier 2 and Tier 3 cities without sovereign-backed guarantees, limit their growth in these areas. The Indian retail banking landscape has shifted significantly over the past decade. Foreign banks, once dominant in foreign exchange and trade finance, saw their share of banking assets drop from 8.5% in FY2018 to 6% in FY2025. This decline results from both internal strategic retreats and increased capabilities of domestic banks. For example, HDFC Bank had over 9,000 branches, and ICICI Bank had over 6,500 by FY2025. Foreign banks with fewer branches serve a much smaller, distinct market.

1.3 The Economics of Deposit Mobilisation

Deposit mobilisation is a key but often overlooked competitive advantage in Indian banking. It provides low-cost funding essential for offering attractive lending rates. In India, CASA deposits - funds in accounts with little or no interest - are the primary source, driven by customer convenience, trust, and the perception of safety with state-backed banks. Public sector banks maintain high CASA ratios due to longstanding customer relationships, salary mandates, and the belief that deposits are implicitly guaranteed, unlike private banks.

The cost difference is crucial at scale. A bank mainly using CASA deposits might have a funding cost of 4-5%, while relying on term or wholesale deposits could raise this to 6-7% or more. For large lending portfolios, this gap affects the minimum profitably priced loans. Foreign banks and fintechs, facing higher costs, either accept thinner margins or lose competitiveness in MSME or retail markets. This explains why small finance banks like AU Small Finance Bank and Equitas target underserved areas, building CASA franchises where larger banks ignore. Their success at scale shows the moat isn't impenetrable, but it took years of relationship building. Their deposit franchises are still geographically limited, which slows expansion.

1.4 The UPI Revolution and Shifting Cost Dynamics

The most significant structural change in Indian banking in the past decade isn't a regulatory reform or new entrant but the Unified Payments Interface (UPI). Since its launch in 2016, UPI has processed over 17,200 crore transactions in FY2024–25, with a value exceeding ₹246 lakh crore - transforming the economics of retail payments and, by extension, of retail customer acquisition and retention, making it one of the world's largest real-time payment systems. Its impact on banking competition is substantial and ongoing.

Banks with deep distribution networks and high CASA ratios benefit disproportionately from UPI because the transaction data generated by a UPI-linked account enriches the bank's credit underwriting capability. A bank with millions of UPI-active customers accumulates behavioural and transactional data that can be used to extend pre-approved credit products with low customer acquisition costs. For incumbents, UPI reinforces existing advantages by serving as a daily engagement tool for banks with large customer bases, especially public-sector and major private banks. The State Bank of India and HDFC Bank lead in UPI volume, fostering customer loyalty and reducing churn, while creating opportunities for cross-sell of loans, insurance, and investments.

UPI has transformed credit history by generating digital transaction trails from payments, bill settlements, and merchant transactions, offering lenders an alternative credit data source. This enables better underwriting of thin-file borrowers without formal credit records. The RBI's Account Aggregator framework further extends this by allowing lenders consensual access to financial data across institutions. These innovations improve credit assessment but are accessible to all lenders, not providing a lasting competitive advantage for any one type of institution.

1.5 The Central Paradox: Record Profits, Repeated Failures

The facts outlined earlier highlight a clear tension that this analysis aims to resolve. India's largest domestic banks are achieving record profits: SBI earned ₹70,901 crore in FY25, and HDFC Bank earned ₹67,347 crore. Both are expanding their retail and MSME loan portfolios at double-digit growth rates. They are operating in the same market where Citibank, despite being a highly sophisticated financial institution, decided to exit retail banking after 120 years. Similarly, Deutsche Bank has shut down its consumer division.

The paradox has a clear explanation: domestic incumbents succeed not because the market is easy, but because they've built specific capabilities like branch density, low-cost deposits, credit bureau relationships, collections infrastructure, and regulatory trust over decades. Foreign banks see the credit gap, unbanked population, and GDP growth as opportunities but find the market less ready than expected. Branch networks can't be quickly replicated, deposit franchises can't be bought, and regulatory relationships take years to build. When credit cycles turn, fast entrants often suffer the most.

Understanding why the market rewards incumbents but destroys challengers is key to this analysis. The two case clusters — foreign bank retreats and domestic bank collapses — are not random but expected results of structural mismatches between market needs and these institutions' offerings. The four causal pillars — scale economics, governance deficit, regulatory misalignment, and business model fragility — are the framework to understand and avoid these mismatches. A fifth pillar, trust and long-term commitment, is examined in depth in Sections 3, 4, and 5.

2. FOREIGN BANKS IN INDIA: STRATEGY, STRUCTURE AND STRUCTURAL DISADVANTAGE

Section Highlights

Foreign banks operating in India face layered structural constraints — from branch licensing to PSL obligations and CASA deficits — that make retail and MSME lending uncompetitive at the scale most have been willing to commit to.

- Priority Sector Lending obligations function as a structural tax: foreign banks unable to originate PSL-compliant loans organically must park shortfalls in below-market RIDF deposits, directly compressing NIM.
- The CASA gap is decisive — foreign banks' 20–28% CASA ratios versus domestic peers' 40–46% translate into a 100–150 bps funding cost disadvantage that cannot be overcome through product pricing alone.
- The WOS framework (2013) offered a potential remedy but has been adopted by only a handful of banks; most foreign banks have instead accepted the structural ceiling and retreated to wholesale and wealth management niches.

2.1 How Foreign Banks Are Permitted to Operate in India

Foreign banks in India do not operate on the same terms as domestic ones. The regulatory framework governing their presence has been shaped over decades by the RBI's twin objectives of opening the banking sector to international institutions while protecting the stability and accessibility of a system that serves 1.4 billion people. The result is a structure that is open in principle but constrained in practice. These constraints fall most heavily on exactly the activities that make retail and MSME lending viable.

Foreign banks in India can enter either as a branch of their foreign parent or, since 2013, as a Wholly Owned Subsidiary (WOS) incorporated under Indian law. The WOS, introduced by the RBI's 2013 framework, aims to encourage greater commitment. A WOS is a separate legal entity with the same capital and governance rules as domestic banks, and it receives near-national treatment for branch expansion. The branch model has tighter licensing: the RBI allocates a fixed number of licences annually, and the process is slow and unpredictable. Also, the WOS model carries a minimum capital requirement of ₹500 crore and, critically, subjects the entity to the same branch licensing regime as domestic banks - meaning that expansion is possible in principle but requires regulatory approval for each location and competes for the same licensing queue as HDFC Bank, ICICI Bank, Kotak Mahindra Bank, and the resurgent PSBs.

Most major foreign banks in India remain on the branch model, with only a few, such as DBS Bank India, which acquired Lakshmi Vilas Bank in 2020, converting to a WOS by FY25. The reluctance stems from WOS requiring capital ring-fencing in India, limiting treasury flexibility, and the slow materialisation of near-national treatment. For those on the branch model, the branch limit significantly hampers their ability to expand their retail and MSME distribution networks.

2.2 The Priority Sector Lending Burden

Priority Sector Lending (PSL) is the mechanism through which the RBI requires banks to allocate a specified share of their lending to sectors the government has identified as underserved: agriculture, small and micro enterprises, affordable housing, education, and export credit, among others. For domestic banks (both public and private), the PSL target is 40% of Adjusted Net Bank Credit (ANBC). For foreign banks with fewer than 20 branches, the target is lower, and the eligible categories are broader, allowing more flexibility for them to meet it. For foreign banks with 20 or more branches, the full 40% target applies, with sub-targets generally similar to those imposed on domestic banks. The revised PSL Master Directions, effective April 2025, introduced a district-weighted credit system that further increases compliance complexity.

The PSL framework becomes a structural issue when meeting the 40% ANBC target, which requires a loan book focused on costly segments like small farmers, micro-enterprises, and self-employed borrowers. Domestic banks with extensive branch networks can meet PSL targets through their regular lending, while foreign banks with limited urban branches and mainly corporate and high-net-worth clients cannot. When foreign banks fall short, they must deposit the shortfall into government funds like RIDF and SIDBI, which offer below-market returns.

The cost of PSL non-compliance, like below-market RIDF deposits, can lower a foreign bank's net interest margin. More harmful is the strategic distortion: banks unable to profitably originate PSL-compliant loans at scale must choose between accepting margin dilution via RIDF deposits, buying PSL certificates from other lenders (allowed since 2016 but costly), or limiting balance sheet growth to reduce PSL shortfall. These options are unattractive and drain management resources better used by domestic competitors.

2.3 The CASA Deficit and Its Consequences for Funding Cost

Current Account and Savings Account (CASA) deposits are the cheapest funding source available to a bank. Savings accounts typically pay 2.5-4% interest; current accounts pay nothing. A bank with a high CASA ratio can fund its loan book cheaply and therefore lend at rates that generate attractive spreads. A bank with a low CASA ratio must rely more heavily on term deposits and wholesale borrowing, which are priced closer to market rates and respond quickly to changes in monetary policy.

Foreign banks in India face structural disadvantages in CASA, with ratios of 20-28%, unlike HDFC Bank's 40% and others in the high 30s to low 40s. This gap increases their funding costs by 100-150 basis points compared to top private banks and more than public banks, which benefit from government salary accounts and institutional ties that foreign banks lack. The CASA deficit is caused by structural, not operational issues. Building a sizable savings base requires branches for walk-in accounts, employer relationships, and everyday services like ATMs and local staff, fostering daily trust. Foreign banks, mainly serving corporate and affluent clients with small urban branches, can't scale these elements enough to boost CASA ratios. The deficit results from regulatory and structural limits on foreign banks, not poor strategy.

The funding cost disadvantage worsens in rising-rate environments, especially during the 2022-24 cycle, when domestic banks maintained stable net interest margins, while foreign and smaller private banks faced significant NIM compression. When the RBI tightens monetary policy, term deposit rates increase quickly as banks compete for retail funds and wholesale borrowing costs rise. This reliance on term deposits causes funding costs to spike almost immediately.

Key Financial Metrics —
Selected Foreign Banks vs Indian Private Banks (FY 2024–25)

Institution	Type	NIM (%)	CASA Ratio (%)	Cost-Income Ratio (%)	Annual Revenue FY25 (₹ Cr)*	Net Profit FY25 (₹ Cr)
HDFC Bank	Indian Private	3.46	~46%	~40%	~1,44,000	67,347
ICICI Bank	Indian Private	4.25	~43%	~38%	~1,12,000	47,227
State Bank of India	Public Sector	3.26	~41%	~48%	~2,35,000	70,901
Deutsche Bank India	Foreign	4.9	~22%	~75%	~12,415	3,931
Standard Chartered India	Foreign	4.60 & 4.90	~24%	~85%	~19,938	7,089

**Annual Revenue represents Net Revenue (Net Interest Income + Other Income) for Indian banks (approximate, standalone basis, FY25) and Operating/Total Income as publicly reported for foreign banks.*
Source: RBI Database on Indian Economy; published annual reports of respective banks, FY 2024–25.

The table shows the paradox in India's foreign bank economics. Deutsche Bank India (4.9%) and Standard Chartered India (4.6%) report competitive NIMs, but these stem from wholesale business — high-quality, low-volume assets with low risk. Retail lending, which involves numerous small, dispersed loans, boosts NIM but also adds costs. When expenses are included, Deutsche Bank's expenses are about 75% of income in FY25, and Standard Chartered's are about 85%, compared to 38–40% for Indian private banks.

The difference in CASA ratios highlights a key structural weakness. HDFC Bank's 46% CASA ratio suggests that almost half of its deposits incur interest costs of 2–4%. In contrast, Deutsche Bank India's 20–22% ratio results in higher funding costs, which diminishes net interest margins (NIM). This gap is due to foreign banks underinvesting in branch infrastructure and prioritising lean operations rather than building deposit franchises. Consequently, they depend more on expensive wholesale funding, which is more volatile and less stable during stress.

2.4 Why the WOS Route Doesn't Change the Bottom Line?

The 2013 WOS framework aimed to help foreign banks by allowing subsidiaries to be treated like domestic private banks for branch expansion and market access. A decade later, results are modest. DBS India exemplifies the WOS route's potential: after acquiring Lakshmi Vilas Bank, it gained an instant branch network and deposit franchise, boosting its retail banking position faster than organic growth. Its CASA ratio and retail loans improved significantly.

But DBS is the exception, and the route it took is not reliably available. For foreign banks that cannot find an acquisition target, the WOS route still requires building branch presence organically, which means navigating the same RBI licensing process, real estate and staffing costs, and long lead times for deposit mobilisation as the branch model entails. The capital ring-fencing requirement adds a cost that parent treasuries resist. And the regulatory treatment of WOS entities, while improved, has not been identical to that of domestic private banks in all respects.

The result is that most foreign banks have effectively accepted the structural ceiling rather than attempting to break through it. They have retreated to segments such as large corporate banking, trade finance, cash management for multinationals, and wealth management for the affluent, where their global networks and product capabilities give them genuine advantages that domestic banks cannot easily replicate. These are profitable businesses. They are not, however, the retail and MSME lending market that this analysis concerns itself with, and the withdrawal from that market is now, for most foreign banks in India, effectively complete.

3. CASE STUDIES: FOREIGN BANK RETREATS

Section Highlights

Ten foreign banks have exited or significantly curtailed retail and MSME operations in India between 2000 and 2025. Every exit traces to the same structural constraints — but underlying all of them is a failure to earn, or sustain, the trust of Indian customers and regulators over the long term.

- ANZ Grindlays' 2000 exit was the earliest and most avoidable: accumulated regulatory damage from the 1992 Harshad Mehta securities scam eroded trust to a point that the group could not rebuild, making sale the only option.
- The ING Vysya merger with Kotak stands apart as the governance success story: a well-structured, value-creating exit that recognised early what others took decades to accept — that a sub-majority foreign stake in an Indian retail bank is not a viable long-term position without deep institutional commitment.
- Across all cases, the pattern is the same: foreign banks entered India's retail market, built limited branch networks, never matched domestic competitors on CASA or trust, and eventually made a group-level capital decision to exit — leaving behind franchise value that was only fully realised by domestic acquirers.

The cases examined in this section span two decades of foreign bank experience in India and represent a range of exit types: staged retreat, strategic pivot, forced group-level withdrawal, negotiated sale, and selective divestiture. Each reflects a coherent institutional response to a specific set of pressures. But in every case, those pressures trace back to the same structural constraints identified in Section 2. The sub-analysis framework applied to each case covers defined dimensions, from business model design to the final exit drivers, allowing patterns to be identified clearly across otherwise quite different institutions.

3.1 ANZ Grindlays (Sale to Standard Chartered, April 2000)

ANZ Grindlays' 2000 exit marks the start of India's modern foreign bank withdrawals, with a long history. Originally Leslie & Grindlay, founded in London in 1828 for the British Army and colonial trade, it became a well-entrenched foreign bank in India by the time of its sale to Standard Chartered for $1.34 billion. The bank had a widespread branch network, serving high-net-worth individuals, corporates, and retail customers across the subcontinent. Grindlays pioneered merchant banking in 1967 and launched India's first foreign bank credit card in 1989, two years before Citibank.

ANZ's exit from the Grindlays franchise resulted from a regulatory and reputational crisis, not India's retail economics. In 1992, ANZ Grindlays was linked to the Harshad Mehta securities scam, in which its securities operations routed illegal funds through the interbank call money market. Its internal systems were not able to prevent the misuse of its clearing infrastructure. Regulatory scrutiny intensified over the years that followed, and amid leadership transitions and staff departures, ANZ found it increasingly difficult to rebuild its regulatory standing and operational stability.

The 2000 exit marked a decade-long erosion of ANZ's strategic confidence in the Grindlays franchise. The transaction transferred ANZ Grindlays' Middle East and South Asia operations to Standard Chartered, making it the largest foreign bank in India, Pakistan, and Bangladesh by assets, with 2.2 million customers. ANZ re-entered India in 2011 through a Mumbai corporate and institutional banking branch, this time with a deliberately narrower mandate - focusing solely on corporate and institutional clients, precisely the segment where its operational strengths were most relevant

3.2 Deutsche Bank India (2011 and 2025)

Deutsche Bank's relationship with India's retail banking has followed a distinct arc: a partial retreat in 2011, a period of ambiguity, and a 2025 exit. In 2011, it sold its credit card business to IndusInd Bank, reflecting recognition that the unsecured consumer finance segment, with high costs, collection needs, and MSME exposure, was not profitable with its limited branch network. This exit signalled that retail banking in India required institutional commitment - branches, technology, human capital, and risk infrastructure - that the bank's group strategy at the time did not prioritise for its India franchise.

The 2025 retail exit process began after CEO Christian Sewing announced a global restructuring programme in March 2025, which included cutting around 2,000 retail jobs and significantly reducing the bank's international branch network. In India, Deutsche Bank runs its retail operations through 17 branches, generating $278.3 million in retail banking revenue for the fiscal year ending March 2025 — about 27.8% of its total India net revenue of roughly $1 billion. Over 22,000 people work in Deutsche Bank's India operations, making it its largest non-German branch network. The key governance insight here is the clear asymmetry: wholesale, corporate banking, treasury, and the Global Capability Centre (GCC) are thriving, with India earning $1 billion in net revenue, similar to Singapore, while the retail segment, which needs a different operating model and capabilities, has never reached a scale that justifies its costs.

Deutsche Bank invited bids by August 29, 2025, for a retail business with 17 branches generating $278 million annually. The lack of a publicised acquisition shows retail assets and a customer base of a foreign bank are not enough to impact a domestic bank with millions of retail customers. Perhaps, the central challenge in Deutsche Bank's India retail journey was the absence of a definitive group-level decision on the scale and model for the retail business. The operation continued for over a decade in a configuration that was neither scaled up to compete with domestic incumbents nor restructured into a sharper institutional focus - a position that became increasingly difficult to sustain as domestic competition intensified.

3.3 Barclays India- Strategic Reorientation (2012)

In 2012, Barclays partly withdrew from India, closing about a third of its branches, mostly in non-metropolitan areas. It shifted focus to corporate, investment banking, and wealth management. This decision reflected the bank's reassessment of where its competitive strengths genuinely lay, even as the transition involved a period where the retail business was progressively wound down rather than formally divested.

Barclays' business model for Indian retail banking was concentrated in the personal loan and credit card segments, targeting high-income urban customers - a segment that Citibank had pioneered and for which the incumbent advantage was structural. Barclays' customer acquisition cost in the retail segment was not publicly disclosed, but the structural dynamics are well understood: a bank with limited brand recognition in the mass retail market, no extensive ATM or branch network for deposit capture, and no UPI-era digital channel could only compete on price - a strategy that compresses margins without building a sustainable franchise. The 2012 retreat was a belated acknowledgement of these economics.

The Barclays experience reflects the structural difficulty of calibrating the right moment to reorient a retail business in a market where competitive conditions change faster than legacy operations can be adjusted. The bank entered the Indian retail market when the competitive dynamics appeared more favourable, and its eventual partial withdrawal, concentrating on corporate and investment banking, resulted in a more focused, if smaller, India presence that has since been reorganised around those core strengths.

3.4 UBS India (Licence Surrender, June 2013)

UBS India's surrender of its banking licence in June 2013 exemplifies how the Priority Sector Lending (PSL) and regulatory capital regime acted as exit drivers. UBS operated a single Mumbai branch offering wealth management and credit services for institutional and high-net-worth clients. Despite not pursuing retail or MSME lending, holding a full banking licence required PSL compliance and agricultural lending targets, as mandated by the RBI for all scheduled commercial banks.

UBS Group's global 'Project Accelerate' restructuring plan, announced in 2012, was the formal trigger for the exit. The plan aimed to reduce balance sheet size, enhance the Tier-1 capital ratio, and withdraw from capital-intensive businesses worldwide. The 2008 financial crisis revealed significant losses in UBS's structured credit holdings, and the Swiss government's bailout came with promises to adopt a more conservative capital approach. Additionally, Basel III's increased risk-weight requirements for fixed-income and credit activities rendered the India banking licence - along with its PSL obligations and minimum capital requirements - less attractive to maintain.

UBS India's Managing Director, Aashish Kamat, explained in a 2013 interview that running a branch in India with a full banking licence required capital and agricultural lending mandates misaligned with UBS's strengths in wealth management and investment banking. The full-spectrum licence was unsuitable for an institution focused on high-margin, capital-light advisory services. UBS management mentioned the RBI's discussion paper on differentiated banking licences as a framework that could enable re-entry on terms better aligned with the bank's institutional strengths - a signal of continued strategic interest in India's financial markets.

3.5 ING Vysya Bank (Merger with Kotak Mahindra Bank, April 2015)

The merger of ING Vysya Bank with Kotak Mahindra Bank stands out as the most analytically notable case in this report, mainly because it is a success story in governance. It is included not due to ING's failure in India, but because the merger exemplifies a well-executed exit by a foreign bank shareholder from Indian retail banking through a transaction structure that ensured full value for all stakeholders.

ING's India banking history began in 1999 with BBL's stake in Vysya Bank, established in Bangalore in 1930, with a strong presence in the Deccan and southern states. By 2002, ING Group held 42.7% of ING Vysya Bank, the first foreign acquisition of an Indian bank. Operating with 568 branches, 2 million customers, and ₹6,072 crore revenue in FY2014, it had a strong balance sheet but moderate growth and high cost-income ratio. The 2014 all-stock merger, valued at roughly ₹15,000 crore ($2.34 billion), combined Kotak Mahindra Bank's retail banking in western and northern India with ING Vysya's SME banking in the south. The merged bank became India's fourth-largest private sector bank with 1,261 branches and 40,000 employees. ING Group received a 6.5% stake in the new entity, due to capital constraints and strategic priorities after the 2008 crisis.

The governance lesson from ING Vysya contrasts with other foreign bank cases: when a foreign bank's board makes a deliberate, strategic decision about its India banking stake -executed through value-creating transactions - the outcome differs. ING Vysya foresaw, a decade before Deutsche Bank, that maintaining a sub-majority stake was incompatible with ING Group's capital goals. The merger was the right governance decision at the right time.

3.6 Royal Bank of Scotland India - Group-Mandated Full Exit (2016)

The Royal Bank of Scotland's 2016 exit from India is best understood as a consequence of the significant capital and restructuring pressures that the RBS Group faced following the 2007–2009 global financial crisis - a period during which the group undertook a fundamental reassessment of its international footprint - rather than a reflection of India's attractiveness as a market. The acquisition of ABN AMRO at the peak of the credit cycle, the 2008 financial crisis collapse, and the UK Government bailout led to a decade-long need to shrink risk-weighted assets and rebuild capital. India, a small retail operation requiring ongoing investment, was an early casualty of this process.

RBS wound up its corporate, retail, and institutional banking operations in India in 2016, covering Mumbai, Delhi, Bengaluru, Hyderabad, and Chennai. The business model had included retail banking, credit cards, and SME lending - segments that, collectively, required the kind of deep branch network and low-cost deposit base that RBS had never built in India. The bank's retail branch density at exit was, by published accounts, among the lowest of any major foreign bank seeking to serve the retail segment.

RBS India's governance lesson is systemic: a foreign bank's retail market presence depends on group-level capital decisions. During a crisis requiring capital repatriation, the Indian retail arm, small, capital-intensive, and long-term, is among the first assets surrendered. When group-level capital decisions took precedence under the pressures of restructuring, the India retail operation was among the businesses identified for withdrawal.

3.7 FirstRand Bank India (Retail Exit 2016, Branch Conversion to Representative Office 2021–22)

FirstRand Bank's India story mirrors the broader foreign bank experience - entering late, attempting much quickly, then withdrawing within twelve years. South Africa's largest financial group entered India in 2009 via a Mumbai branch. With about $118 billion in assets, FirstRand had strong institutional capabilities, but a single-branch setup couldn't fully leverage them without a broader network and deposit base.

FirstRand started lending to retail and SME clients in 2012, three years after entry, due to infrastructure development and governance challenges of adapting risk frameworks. The four-year experiment ended in 2016 with the exit from retail and SME lending because of rising non-performing assets and limited scale from a single branch. The bank shifted to corporate and investment banking, exploring a subsidiary in India, but abandoned this due to scale issues and high capital requirements of the WOS model.

The final withdrawal occurred in April 2021, shortly after Citigroup exited India's retail market, reflecting both COVID-19's impact on lending margins and the marginal status of the India operation. FirstRand's India branch reported FY2019-20 revenue of about ₹318 crore and advances of ₹420 crore, a sub-scale operation with revenue akin to a mid-sized NBFC branch cluster. Transitioning to a representative office, pending approval, maintains a relationship function for FirstRand's corporate division without banking licence obligations, affecting 50 staff. The scale contrast between the group's overall balance sheet and its India operation - $118 billion in assets generating ₹318 crore in India revenue - illustrates the structural difficulty of building a viable retail lending franchise from a single-branch platform, where the path to deposit mobilisation, PSL compliance, and customer scale requires a level of commitment that a branch presence alone cannot support.

3.8 Citibank India - The Most Instructive Exit (2022-23)

The Citibank India exit is the most documented and the key among foreign bank retreats. Citi entered India's market in 1985 and was once the most respected foreign retail brand, known for premium credit cards, wealth management, and innovative lending. By the time of its sale to Axis Bank in March 2022, Citi operated 35 branches, served about 3 million retail customers, issued 2.2 million credit cards, and held 1.2 million accounts - fewer than domestic rivals despite its brand and history.

The transaction, valued at approximately ₹11,603 crore (equivalent to over $1 billion at the time), transferred to Axis Bank not just the loan book and customer accounts but the credit card business, the wealth management relationships, and the personnel of Citi's Indian retail operation. Axis Bank, in its investor presentations, highlighted the acquisition of 2.4 million customers and 1.8 million credit cards as the primary strategic rationale - demonstrating that the assets Citi had spent decades building retained substantial commercial value, even if Citi itself was unable to derive adequate returns from them. Citi's CEO Jane Fraser explained the group is reallocating resources to wealth management and institutional businesses in Asia due to higher margins and favourable competitive conditions. This decision reflects a considered capital allocation call - one that several global banks made across multiple markets at similar stages in their retail cycles. Citi's India retail franchise, built over nearly four decades, retained considerable value that was recognised in the Axis Bank transaction. The strategic question of what scale was necessary for India retail to be self-sustaining relative to competing uses of group capital was one that the group ultimately resolved by choosing to redeploy that capital elsewhere.

The PSL dimension of the Citi exit deserves particular attention. As a foreign bank with more than 20 branches (though only marginally), Citi was subject to the 40 percent PSL target. Meeting this target organically — through direct lending to agriculture, MSMEs, and weaker sections — was structurally very difficult for a bank whose retail operations were concentrated in premium urban segments. The PSL shortfall was borne through mandatory RIDF deposits at below-market rates, effectively functioning as a regulatory tax on the retail business, further compressing already-thin margins.

Citi's exit from India was part of a global withdrawal from 13 consumer banking markets, a programme that eliminated approximately $7 billion in capital deployed in low-return geographies. PSL compliance cost was one component of the Indian retail business's poor return on capital, even if it was not the proximate trigger for the exit.

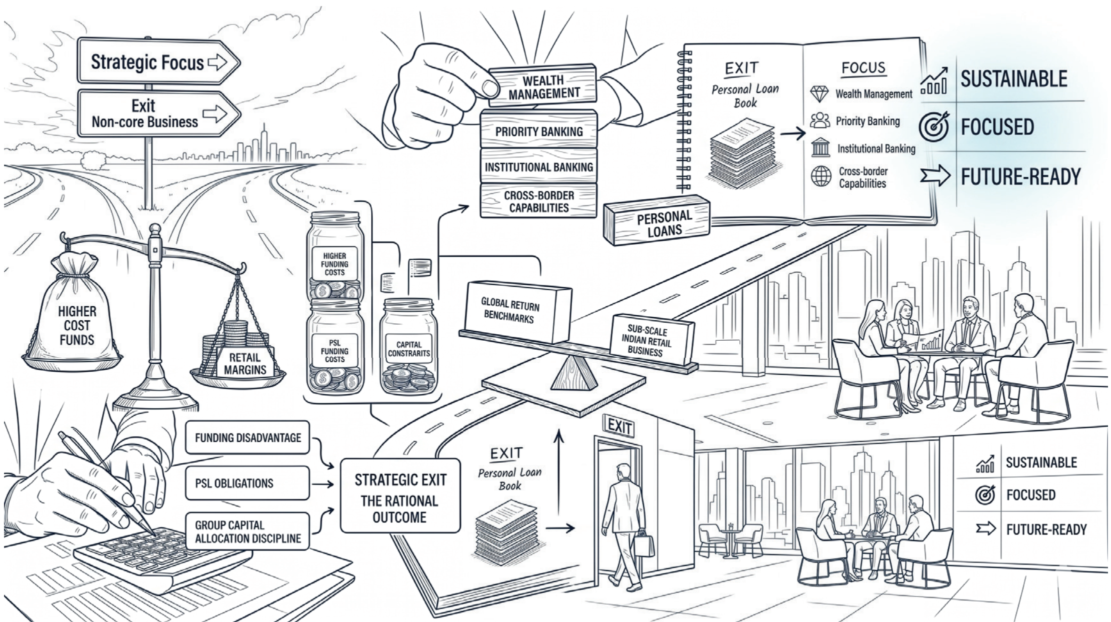
3.9 Standard Chartered India - Selective Divestiture (2023)

Standard Chartered India's 2023 sale of its personal loan book to Kotak Mahindra Bank for approximately ₹4,100 crore is the most deliberate and strategically coherent exit in this group. This was not a retreat forced by group crisis or portfolio rationalisation across multiple markets, but a precise decision to exit one product line while doubling down on others.

The bank had historically operated a broader retail banking franchise but had been progressively narrowing its focus toward wealth management, priority banking for affluent clients, and institutional banking. The personal loan book was the outlier: a product requiring high origination volumes, intensive servicing, and competitive pricing in a segment where domestic NBFCs and digital lenders had proven faster and cheaper. Standard Chartered, without the digital origination infrastructure or the alternative credit data assets that newer entrants were deploying, faced a choice between making a significant investment to modernise its personal loan capability and exiting, and exiting was the cleaner option. The divestiture also had a structural benefit: the personal loan book formed part of the ANBC denominator against which PSL obligations are calculated, and shrinking it reduced the bank's absolute PSL shortfall and the resulting RIDF deposit drag.

Like all foreign banks in India, the CASA ratio was limited by the small branch network and a mainly corporate and wealthy client base, making the bank rely on higher-cost term deposits compared to domestic peers. This funding gap compressed retail product margins. Standard Chartered's focus is on wealth management: its Wealth & Retail Banking segment earned $8.5 billion globally in 2025, with India's growing HNI and UHNI population representing a key opportunity. Under CEO Bill Winters, as outlined in the 2025 Annual Report, the strategy is premiumisation, exiting less competitive retail products, and focusing on cross-border wealth management and institutional banking, where the global franchise offers unique advantages.

Three structural realities run through every case. First, no foreign bank achieved the branch density or CASA ratio needed to fund retail and MSME lending at a competitive cost. The funding disadvantage is built into the model from day one and cannot be overcome without the kind of patient branch investment that group-level return requirements consistently prevent. Second, PSL obligations imposed a persistent cost that compounded the funding disadvantage and constrained where capital could be deployed. Third, and most fundamentally, every exit was ultimately triggered by a group-level capital allocation decision made against global return benchmarks that sub-scale, structurally constrained Indian retail businesses could not meet.



3.10 Trust and Long-Term Commitment: The Invisible Differentiator

Beneath the structural disadvantages of PSL, CASA, and branch licensing lies a factor that is harder to quantify but equally decisive: trust. India's retail banking market does not simply reward scale and efficiency - it rewards institutions that have demonstrated, through years of presence and consistent behaviour, their genuine commitment to the Indian market and its customers.

The early differentiation enjoyed by foreign banks like Citibank and ANZ Grindlays was built on exactly this foundation. In the 1980s and 1990s, these banks offered Indian consumers a quality of service, product sophistication, and branch experience that domestic banks - weighed down by bureaucracy, technology deficits, and staff constraints - simply could not match. Citi's credit card was not just a financial product; it was a symbol of access to an international standard of banking. ANZ Grindlays' introduction of India's first foreign bank credit card in 1989 and its early deployment of core banking systems gave it a genuine first-mover trust advantage.

That trust advantage eroded not because domestic banks became more trusted overnight, but because HDFC Bank and ICICI Bank invested relentlessly and over decades in exactly the capabilities - technology, customer service, branch experience, product innovation - that had originally differentiated foreign banks. By the 2010s, HDFC Bank's customer experience often exceeded what any foreign bank operating from 17 or 35 urban branches could deliver. The trust premium that Citi had built became indistinguishable from what HDFC Bank now offered, plus the domestic bank had 9,000 branches, a 46% CASA ratio, and a PSL-compliant loan book. The foreign banks' differentiation had disappeared, and their structural disadvantages remained.

What the foreign banks failed to do, and what DBS India, uniquely among foreign banks, is attempting through its LVB acquisition and WOS commitment, is to renew the trust compact on Indian terms. Building trust with Indian depositors requires physical presence, local management authority, and a demonstrated willingness to serve the full spectrum of customers, not just the premium urban segment. Building trust with the RBI requires transparent governance, consistent compliance, and a track record of engagement with the regulator's evolving priorities. None of the foreign bank exits examined in this section can be fully explained without recognising that trust - with depositors, with borrowers, with the regulator - was a dimension that proved difficult to build at sufficient depth within the timeframes and with the institutional commitment that each bank was able to sustain.

4. CASE STUDIES: INDIAN BANKS & NBFC STRESS EPISODES

Section Highlights

India's domestic banking and NBFC stress episodes reveal that structural proximity to Indian customers is no guarantee of sound governance; when boards and management fail, the consequences are systemic and the trust of depositors takes years to rebuild.

- Across all five cases, from the AP MFI crisis to Yes Bank and Lakshmi Vilas Bank, the precipitating cause was not macroeconomic shock but governance failure: boards that could not challenge management, risk functions that did not escalate, and audit committees that failed to surface the divergence between reported and actual NPAs.
- The IL&FS default with ₹91,000 crore in group debt against a parent equity base of ₹9.83 crore illustrates how a promoter structure can accumulate systemic risk invisibly, a governance failure enabled by the absenceof any single counterparty or regulator with full consolidated visibility.

This section examines major episodes of financial sector distress in India across banks and non-banking financial companies (NBFCs). The cases span different institutional forms, including microfinance institutions, systemically important NBFCs, cooperative banks, and private sector banks, yet reveal striking similarities in their underlying vulnerabilities. Each case is analysed through a common lens covering business model, funding structure, cost dynamics, underwriting strategy, governance failures, and the interaction between internal weaknesses and external triggers. The discussion shows that financial instability in India is rarely the result of a single shock. Instead, it reflects the cumulative build-up of structural fragilities that become visible when a trigger event occurs.

4.1 Andhra Pradesh Microfinance Crisis (2010)

The Andhra Pradesh microfinance crisis is one of the earliest systemic disruptions in India's NBFC sector, which played a key role in shaping future regulation. Before the crisis, NBFC-MFIs followed a high-growth model based on unsecured lending through joint liability groups, in which peer monitoring replaced collateral. Andhra Pradesh alone accounted for 30-35% of the microfinance portfolio, showing high geographic concentration. The sector relied heavily on bank funding and institutional borrowing, making it vulnerable to repayment disruptions. Operating costs were also high due to labour-intensive field work, making profitability dependent on maintaining near-perfect repayment rates. As a result, underwriting standards weakened significantly. Without credit bureau integration, multiple loans to the same borrowers led to widespread over-indebtedness.

Perhaps the governance issues worsened these risks. Coercive recovery practices became common, damaging borrower trust and causing political intervention. The business model that produced the crisis was one in which rapid disbursement growth, measured in loan portfolio size and customer numbers, was the primary performance metric at the institutional level. Boards of MFIs rewarded management for growth; investors - including private equity funds that had entered the sector in the mid-2000s - rewarded management for growth; and credit rating agencies, whose ratings enabled access to bank credit lines, rewarded institutions for portfolio size and collection efficiency. No governance function in the ecosystem - board, regulator, or investor - had yet developed the systems or frameworks to track and contain over-indebtedness at the individual borrower level; credit bureau integration was limited, and lending data was not shared across institutions in real time.

The crisis shows how internal weaknesses interacted with external causes. While the ordinance was the immediate trigger, the core issue was the risky, unsustainable credit expansion without proper risk checks. The aftermath resulted in a major overhaul of the regulatory system, with the RBI setting specific norms for NBFC-MFIs, including limits on borrower exposure, pricing restrictions, and mandatory credit bureau reporting.

4.2 NBFC Liquidity Crisis (2018–2020)

The NBFC liquidity crisis was a systemic event that revealed deep structural weaknesses in the funding models of large non-bank financial institutions. Entities such as IL&FS and DHFL engaged in financing long-term infrastructure and housing projects, which naturally involved illiquid assets and extended cash-flow timelines. However, these long-term assets were primarily funded through short-term market borrowings such as commercial paper and non-convertible debentures, creating a fundamental asset-liability mismatch. During periods of abundant liquidity, this model seemed sustainable because borrowing costs stayed low and refinancing risks were minimal. Over time, leverage grew, and balance sheet risks accumulated.

The default of IL&FS in September 2018, with an estimated debt of around ₹91,000 crore, marked a turning point. It caused a sharp loss of confidence in the NBFC sector, leading to a sudden tightening of liquidity conditions. Institutions relying on continuous refinancing found themselves unable to roll over their short-term liabilities. The case of DHFL further heightened concerns around governance, as issues related to related-party transactions and financial mismanagement surfaced, eventually resulting in insolvency proceedings in 2019.

The governance mechanism that enabled this debt accumulation was the promoter structure itself. IL&FS operated through a web of over 200 subsidiaries and special purpose vehicles, each capable of raising debt independently in the capital markets, each rated (until the collapse) as investment grade by the major credit rating agencies, and each positioned at sufficient corporate distance from the parent that consolidated leverage and consolidated cash flow was not transparently visible to any single counterparty, regulator, or investor. The group's founding promoters - Central Bank of India, HDFC Limited, and the Unit Trust of India - had over time taken a relatively hands-off approach to operational oversight, with day-to-day management vested in a long-serving leadership team. The resulting governance structure did not provide the checks and escalation mechanisms that the scale of the group's activities ultimately required. The crisis illustrates how liquidity shocks can quickly turn into solvency concerns when structural mismatches are present. While the IL&FS default was the immediate trigger, the underlying vulnerability was the persistent dependence on short-term funding to support long-term assets. The broader impact included a sharp slowdown in NBFC credit growth, rising

4.3 PMC Bank Crisis (2019)

The collapse of Punjab and Maharashtra Co-operative Bank in 2019 serves as a case study highlighting specific governance vulnerabilities within the cooperative banking model and the consequences of insufficient regulatory oversight in a segment that serves millions of small depositors. The crisis uncovered fundamental governance weaknesses inside the cooperative banking framework. The bank operated on a traditional deposit-funded model, relying heavily on retail depositors, which generally provides stability but also makes institutions highly vulnerable to confidence shocks.

In this instance, the main issue was the combination of extreme concentration risk and fraudulent activities. About 73 per cent of the bank's loan portfolio was linked to a single borrower group, HDIL, violating basic diversification principles. This exposure was deliberately hidden through the creation of dummy accounts and misreporting of non-performing assets. The total fraud was estimated at ₹4,355 crore. What emerged from the regulatory investigation was not merely a case of lending misjudgement but a pattern in which internal control processes and board-level oversight mechanisms did not function as intended, allowing a concentration of exposure to remain unreported for an extended period. Additionally, regulatory limitations restricted the RBI's ability to intervene in cooperative bank governance structures before the crisis.

When irregularities surfaced, the RBI imposed withdrawal restrictions, initially limiting withdrawals to ₹1,000. This triggered immediate depositor panic and revealed the fragile trust underlying cooperative

4.4 Yes Bank Crisis (2020 Moratorium)

Yes Bank's trajectory from India's most admired new-generation private bank to the subject of an RBI-imposed moratorium in March 2020 is one of the most thoroughly documented governance failures in Indian banking history. Founded in 2004 and growing rapidly on the back of aggressive corporate lending, Yes Bank reached a market capitalisation of approximately ₹1 lakh crore in 2017-18. By March 2020, following an RBI moratorium that capped depositor withdrawals at ₹50,000, Yes Bank was rescued through a ₹10,000 crore capital infusion anchored by the State Bank of India, which acquired a 49 per cent stake at ₹10 per share - a share that had traded above ₹400 within the preceding three years.

The Yes Bank crisis highlights the dangers of rapid balance sheet growth and weak risk management. The bank's aggressive focus on corporate lending, especially to sectors already under stress, led to greater exposure to risky borrowers, including IL&FS, DHFL, and other leveraged corporate groups. While higher yields initially benefited the bank, asset quality worsened significantly, with non-performing assets reaching about 19 per cent (₹17,134 crore) by December 2019. RBI inspections uncovered an NPA divergence of roughly ₹3,277 crore for FY2018-2019, indicating underreported stress. On the liability side, reliance on bulk deposits and wholesale funding left the bank vulnerable to shifts in market confidence, causing funding costs to rise and deposit stability to decline. The crisis was caused by vulnerabilities on both the asset and liability sides.

4.5 Lakshmi Vilas Bank (2020 Merger with DBS)

Lakshmi Vilas Bank's collapse was a gradual decline rather than an abrupt crisis. The bank shifted from focusing on small and medium enterprises to pursuing riskier corporate loans, without enhancing its risk management. This led to a decline in asset quality, with gross NPA reaching 25.4% by June 2020. Continuous losses over three years eroded capital and damaged investor trust. Failed attempts to raise new capital limited loss absorption capacity. As financial health worsened, depositor confidence declined, putting pressure on liabilities and raising solvency and liquidity issues. A series of strategic shifts - including the move toward riskier corporate lending without commensurate risk management enhancements - alongside leadership transitions during a difficult credit cycle, compounded the deterioration in asset quality.

In November 2020, the RBI imposed a moratorium and arranged a merger with DBS Bank India Ltd., resulting in a complete write-off of existing equity, protecting depositors but causing shareholder losses. The DBS Bank India merger is itself a governance observation: DBS, a Singapore-headquartered bank with a strong digital banking franchise, had been present in India since 1994 but had not established a mass-retail presence.

The acquisition of LVB's branch network - 563 branches, predominantly in South India - gave DBS a geographic footprint that it could not have built organically in any reasonable timeframe, at a zero-equity cost offset only by the liability of LVB's non-performing loan book. The failure of one institution's governance became the enabling condition for another's strategic opportunity.

4.6 Cross-Case Synthesis and Analytical Insights

A comparative review of these cases highlights a consistent pattern of vulnerabilities throughout different parts of the financial system. Governance failures stand out as the most significant issue, whether through fraud, misreporting, or delayed recognition of stress. These issues allowed risks to build up silently until a triggering event revealed them.

Aggressive expansion strategies, coupled with weak underwriting standards, resulted in mispriced risks and concentrated exposures. In the NBFC sector, asset-liability mismatches were a key driver, as short-term funding financed long-term assets, creating fragility. Regulatory gaps and arbitrage options intensified vulnerabilities, especially in segments with lax regulation or fragmented oversight. Liquidity shocks often acted as triggers, although solvency problems were already present in balance sheets.

4.7 When Governance Fails, Trust Follows: The Depositor Dimension

The domestic bank failures examined in this section illustrate a dimension of the trust problem that is distinct from the foreign bank cases. Foreign banks typically lost regulators' trust and failed to earn the trust of mass-market depositors. Domestic banks - PMC Bank, Yes Bank, and LVB - had already earned depositor trust, only to destroy it through governance failures. The consequences of destroying existing trust are, if anything, more severe than never having built it.

When the RBI imposed withdrawal limits of ₹1,000 on PMC Bank depositors in 2019, photographs of retirees and small savers queuing outside branches became a defining image of the human cost of governance failure. These were not customers who had speculated - they were people who had entrusted their life savings to an institution, based on the reasonable assumption that cooperative banking governance would protect them. That trust had been systematically violated by a management and board structure that had concealed a ₹4,355 crore fraud for years.

The Yes Bank moratorium and the Lakshmi Vilas Bank amalgamation added further dimensions to this erosion of trust. Both institutions had been active participants in the new-age private banking space, promising customers a premium experience built on technology and service quality. When their asset quality collapsed, the trust of depositors, who had chosen these banks over their public sector counterparts, specifically because they appeared better governed, was dealt a disproportionate blow. The RBI's interventions in both cases were necessary to prevent systemic contagion, but the depositor withdrawal caps enforced in each case were a blunt reminder that trust, once broken in the Indian banking context, requires both regulatory enforcement and institutional rebuilding to restore.

This is the inverse of what India's successful domestic banks have built over decades. HDFC Bank's extraordinary franchise value, ₹67,347 crore in FY25 net profit from a bank that is barely thirty years old, is inseparable from the trust it has earned with depositors, borrowers, and the RBI. That trust was built through consistent governance, transparent reporting, and a management culture that prioritised risk discipline over growth at any cost. ICICI Bank's journey from a development finance institution through its 2000s governance challenges to its current position as India's second-largest private bank by assets is itself a story of trust rebuilt through sustained institutional discipline and regulatory engagement.

5. ANATOMY OF FAILURE: A CROSS-SECTIONAL FRAMEWORK

Section Highlights

Financial sector failures in India follow recurring patterns across all institutional types - the same dimensions of weakness appear with striking regularity, confirming that governance quality is the master variable that determines whether all other challenges are managed or amplified.

- Total banking sector credit exceeds ₹207 lakh crore, while the MSME formal credit gap is estimated at ₹25–30 lakh crore — signalling unmet demand that has persisted despite decades of policy effort.
- Foreign banks' share of banking assets has declined from 8.5% in FY18 to 6% by FY25, even as domestic banks like HDFC and SBI post record profits — a paradox explained by the structural moats of branch density, CASA deposits, and regulatory trust.
- UPI has transformed banking economics but reinforces incumbents: banks with large CASA bases generate credit underwriting data from UPI transactions, further widening the competitive gap with new entrants.

This section develops a unified analytical framework to understand financial sector failures in India by synthesising insights from the preceding case studies. While the cases span different institutional forms, including banks and NBFCs, a consistent set of underlying drivers emerges across them. These drivers can be organised across eight key dimensions: business model design, sourcing and distribution model, cost structure, compliance architecture, underwriting philosophy, product mix, target segment, and internal and external bottlenecks.

The objective of this framework is not merely to classify failures, but to identify which dimensions were decisive in each case and how patterns repeat across institutional types. A central insight is that failures rarely arise from a single dimension. Instead, they reflect the interaction of weaknesses across multiple dimensions, often compounded over time and triggered by an external shock.

5.1 Business Model Design

The most consistent failure in the cases studied is entering or staying in a market segment without a credible plan to reach the scale needed for economic viability. This applies to every foreign bank case in this report - from the single-branch model of FirstRand and UBS to the 17-branch model of Deutsche Bank to the 35-branch model of Citi. This applies to the foreign banks, which operated retail franchises too small to generate the deposit base, customer data, or operational leverage required to compete with domestic incumbents The governance question in each case is the same: did the board articulate and enforce a clear threshold - in capital deployed, customer numbers, market share, or profitability - at which the business model would be validated or abandoned? In the cases examined, the answer is almost uniformly no.

On the domestic side, the reliance on long-term asset creation funded through short-term liabilities created structural fragility, as seen in the IL&FS and DHFL cases. In contrast, failures in banks such as Yes Bank and Lakshmi Vilas Bank were less about flawed model design in principle and more about how the models were implemented. However, even in these cases, strategic positioning towards high-yield corporate lending without adequate risk controls introduced systemic weaknesses. This suggests that business model design is decisive when it embeds structural mismatches but becomes secondary when governance failures dominate.

5.2 Sourcing and Distribution Architecture

Distribution is not just a commercial asset in Indian retail and MSME banking - it is also a regulatory requirement. PSL compliance, deposit mobilisation, financial inclusion mandates, and KYC obligations all demand geographic reach. Foreign banks have consistently underinvested in this reach, instead relying on agency distribution, digital channels, or the residual value of their premium brand to attract customers. The AP MFI crisis, on the other hand, highlights the opposite issue: a sourcing model so aggressive and geographically concentrated that it led to overlending rather than underlending. Both extremes - inadequate reach and unchecked reach - reveal governance failures in defining and overseeing the distribution strategy.

NBFCs faced liquidity risks due to heavy reliance on market-based funding, such as commercial paper and debentures, thereby heightening their vulnerability during crises. Banks generally had stable deposit-based funding, but increased use of bulk deposits weakened stability, as seen with Yes Bank and Lakshmi Vilas Bank. In all cases, funding sources became channels for stress, regardless of their origin.

5.3 Cost Structure and Economics of Scale

Foreign banks operating in India's retail sector have cost-income ratios between 75-85%, while leading domestic banks range from 38-48%. This difference does not necessarily indicate operational inefficiency but rather reflects structural scale limitations. Retail banking primarily incurs fixed costs, including branch infrastructure, technology, compliance, human resources, and branding. These costs do not decrease proportionally with a smaller customer base; they tend to stay constant even as revenue declines. Governance should ensure that capital allocated to a smaller-scale operation is limited in duration, with a clear investment thesis, specific timeline, and a decision point at which the board assesses whether continued investment is justified or if an exit is warranted.

Cost structures impact growth and vulnerability. In microfinance, high operating costs push for expansion and high repayment rates, leading to borrower over-indebtedness, as seen in Andhra Pradesh. For banks and NBFCs, funding costs increased stress during confidence drops, worsening financial strain.

5.4 Compliance Architecture and Regulatory Alignment

Compliance architecture emerges as one of the most decisive dimensions across cases. Failures in this area took different forms, ranging from outright fraud to regulatory misalignment. The PMC Bank case represents an extreme example of governance breakdown and fraudulent reporting, where compliance systems were effectively bypassed. In the case of Yes Bank, persistent deficiencies in NPA reporting led to direct regulatory intervention. At UBS and ANZ Grindlays, compliance obligations (agricultural lending and securities operations oversight) served as structural business model constraints that governance never resolved. These cases show that compliance is not merely a defensive function but a structural requirement for sustainability. Weaknesses in this dimension tend to have nonlinear effects, as regulatory action can abruptly disrupt otherwise functioning business models.

5.5 Underwriting Philosophy and Credit Risk Culture

Underwriting practices and credit risk culture were central to failures in both banking and microfinance. In the Andhra Pradesh microfinance crisis, weak credit assessment and multiple lending led to systemic over-indebtedness. In Yes Bank and Lakshmi Vilas Bank, aggressive lending to stressed corporates reflected a deterioration in credit discipline. In NBFCs, underwriting risks were compounded by the nature of the assets being financed, particularly long-gestation infrastructure projects.

A key pattern across cases is that underwriting weaknesses often remained hidden during periods of growth, becoming visible only when external conditions deteriorated. This suggests that credit risk culture is a latent but decisive factor in institutional stability. When management compensation is tied to loan growth rather than risk-adjusted return, the credit risk culture will optimise for growth.

When the board's credit committee does not exercise independent, expert challenge of management's credit proposals, the culture will reflect management's risk appetite rather than an independent assessment of the institution's risk capacity. The governance mechanism that sets and enforces credit risk culture is the board, and in each case where underwriting failure was identified as a primary contributor, the board's credit risk governance was deficient.

5.6 Product Mix and Concentration Risk

Concentration - in borrowers, in sectors, in geographies, in product types - is the specific risk that appropriate governance processes are designed to prevent. The PMC Bank crisis illustrates an extreme case in which a single borrower accounted for a dominant share of the loan book. In banks such as Yes Bank and Lakshmi Vilas Bank, exposure to specific stressed sectors amplified risk. In NBFCs, concentration took the form of sectoral exposure to infrastructure and real estate as IL&FS's cost overruns and land acquisition delays systematically undermined cash flows. Across cases, concentration risk interacted with other dimensions such as underwriting and governance. High concentration did not always lead to failure, but in the presence of weak controls, it significantly increased vulnerability.

5.7 Board Governance: Independence, Expertise, and Accountability

The governance dimension that appears to be a primary contributor in most cases is board governance quality. This encompasses multiple sub-dimensions: the independence of non-executive directors from the executive team and from significant shareholders; the financial and sector expertise of board members to conduct meaningful oversight; the quality of board-management communication and information flows; and the accountability mechanisms - audit, nomination, remuneration, and risk committees - through which the board exercises its oversight functions.

In foreign banks, the relevant board failure occurred primarily at the group level: global boards that lacked adequate visibility into or set inadequate performance thresholds for their India retail operations. In cooperative banks, the board failure was structural: elected representatives without financial expertise and without independence from the management teams they were nominally overseeing. In new-generation private banks and NBFCs, the board failure was typically founder-related: in institutions where a charismatic founder held both the CEO role and effective control of the board, independent challenge of management's strategy was systematically suppressed. Yes Bank's Rana Kapoor and IL&FS's Ravi Parthasarathy both embodied, in different ways, this concentration of board and management authority in a single decision-making centre that was insulated from external challenge.

5.8 External Factors: Regulatory Shifts, Macro Shocks & Competitive Dynamics

The analysis does not suggest that governance failure is the sole determinant of institutional distress - external factors are real and consequential. The COVID-19 pandemic accelerated Lakshmi Vilas Bank's deterioration. The 2018 global risk-off environment tightened the credit markets on which India's NBFCs depended. RBS's exit from India was a direct consequence of a crisis that originated in the global structured credit market, not in India. The RBI's sequence of fintech regulatory interventions between 2022 and 2024, however well-justified in retrospect, created an environment of rapid regulatory change that was genuinely difficult for any institution to navigate without prior preparation.

Governance quality determines whether external shocks are absorbed or amplified. Well-governed institutions with strong stress testing, capital buffers, diverse funding, and active boards can survive shocks thanks to their governance infrastructure. Evidence shows governance quality is the key to resilience: strong governance manages shocks, while weak governance exposes failures. Failures often stem from internal issues like governance lapses, capital limits, management weaknesses, and poor risk controls, which shape resilience. External shocks tend to reveal pre-existing internal weaknesses rather than cause new ones. Institutions with robust internal structures better absorb shocks, whereas those with vulnerabilities deteriorate quickly.

Governance Failure Attribution Matrix — Cases Across Eight Dimensions

Institution	Biz Model	Sourcing	Cost/ Scale	Compliance	Underwriting	Prod Mix	Governance	Ext Factors
ANZ Grindlays (2000)	Med	Med	Med	High	Low	Med	High	Med
UBS India (2013)	High	Low	High	Med	Low	Low	High	High
FirstRand India (2021-22)	High	High	High	Low	High	High	High	Med
ING Vysya Bank (2015)	Med	Low	Med	Low	Med	Med	Low	Med
Deutsche Bank (2011/2025)	Med	Med	High	Med	Low	Med	High	Med
Barclays India (2012)	High	High	High	Low	Low	Med	High	Med
RBS India (2016)	Med	Med	High	Low	Low	Med	High	High
Citibank India (2022)	Med	Med	High	Med	Low	Med	High	Med
Std Chartered (2023)	Med	Med	High	Low	Low	Med	High	Low
AP MFI Crisis (2010)	High	High	Low	High	High	Med	High	High
IL&FS / DHFL (2018-20)	High	Med	High	Med	High	High	High	Med
PMC Bank (2019)	Med	High	Med	High	High	High	High	Low
Yes Bank (2020)	High	High	Med	High	High	High	High	Med
Lakshmi Vilas Bk (2020)	Med	Med	Med	Med	High	High	High	High

5.9 Trust, Long-Term Commitment, and What Separates Success from Failure

A cross-sectional review of the cases in this report reveals that no single structural factor - not scale, not CASA ratio, not PSL compliance, not product mix - explains the full range of outcomes. What explains the full range is an attribute that is present in every success story and absent from every failure: a durable, institutional commitment to the Indian market, manifested over time through consistent behaviour toward customers, borrowers, and the regulator. This attribute can be called trust, but it is more precisely understood as the earned confidence of all stakeholders that the institution intends to be in India for the long term, on Indian terms.

The domestic banks that have built the most enduring franchises - HDFC Bank, ICICI Bank, and Kotak Mahindra Bank - did not arrive at their current positions through superior intelligence about market opportunities. They arrived there through sustained investment in branch presence, technology, customer relationships, and risk management discipline, maintained through multiple business cycles and regulatory environments. HDFC Bank, founded in 1994, has never reported a full-year loss. ICICI Bank, which nearly lost its way in the mid-2000s through aggressive expansion and related-party concerns, rebuilt its franchise over a decade of consistent governance reforms under the MD & CEO Chanda Kochhar's successors. Each of these journeys involved setbacks. What distinguished them from the failure cases was that the institutions' boards and management responded to setbacks by strengthening the institutions rather than by retreating or concealing.

Among foreign banks, the contrast is equally instructive. HSBC India and Standard Chartered India have each sustained profitable operations in India for well over a century, and both have done so by, over time, accepting the terms the Indian market sets. HSBC's decision to reduce its branch footprint after 2016 was managed through careful regulatory engagement rather than an abrupt announcement. Standard Chartered's premiumisation strategy — concentrating on wealth management and institutional banking — was executed through deliberate portfolio decisions rather than crisis-driven sales. These institutions have not solved the CASA or PSL problems that defeated their peers. They have, instead, built sufficient regulatory trust and customer confidence for their remaining India businesses to be sustainable and valuable.

The Japanese banking presence in India offers perhaps the clearest illustration of what long-term commitment looks like in practice. MUFG (Mitsubishi UFJ Financial Group) and SMBC (Sumitomo Mitsui Banking Corporation) have operated in India for decades with a clear strategic logic: supporting Japanese corporate clients in India and, progressively, building relationships with Indian corporates seeking access to global capital markets. Neither institution has attempted to build a mass-market retail bank. Both have instead concentrated on the segments where their institutional capabilities are genuinely differentiated, and both have maintained consistent regulatory relationships that give them the goodwill to expand gradually when opportunities arise. This is not a passive strategy; it is the product of deliberate, board-level governance decisions about where the institution can sustainably compete, sustained over decades.

The failure cases, without exception, involve institutions that were never fully committed to India on India's terms. Foreign banks exited because group-level capital decisions overrode market-level strategic logic — a structural failure of long-term commitment governance. Domestic banks failed because management's short-term performance incentives overrode the institution's long-term stability mandate — a different but equally devastating failure of the same attribute. In both cases, the missing element is an institutional culture of commitment: the willingness to invest through bad cycles, to accept regulatory constraints as a permanent feature of the operating environment rather than a temporary obstacle, and to hold management accountable to standards that protect long-term franchise value over short-term profitability.

The regulatory evolution that India's banking sector has undergone since 2010 — the creation of the NBFC-MFI framework, the WOS framework for foreign banks, the scale-based NBFC regulation, the PSL Master Directions of 2025 — can be read as a progressive effort by the RBI to create the conditions under which long-term commitment is rewarded and short-term exploitation is penalised. Each reform closes a regulatory gap through which institutions previously derived a temporary advantage at the cost of systemic stability. The direction of regulatory travel is clear: India's banking market will become progressively less hospitable to institutions that are not genuinely committed to it, and progressively more rewarding for those that are.

The institutions that understand and act on this dynamic — whether domestic banks deepening their rural franchise, foreign banks choosing their niche with precision, or new entrants building credit infrastructure that serves underserved segments — are the ones that will define India's banking landscape over the next decade.

5.10 Cross-Case Synthesis

When viewed together, these dimensions show that financial sector failures in India follow recurring patterns rather than isolated paths. Certain dimensions are consistently important across cases. Governance and compliance failures emerge as the most critical, followed closely by underwriting weaknesses and structural issues in business model design. Other dimensions, such as cost structure, product mix, and target segment, play a supporting role, increasing vulnerabilities when combined with primary weaknesses. The sourcing model often acts as the pathway through which stress appears, especially in the form of liquidity shocks.

The significance of each dimension varies among different institutional archetypes. For NBFCs, asset-liability mismatch and funding structure are key factors. In banks, governance and underwriting play leading roles. This framework indicates that financial stability cannot be understood through a single perspective. Instead, it requires a multidimensional approach that considers the interactions among institutional design, market conditions, and the regulatory environment. Such a cross-sectional view offers a fuller understanding of why failures happen and how similar patterns can arise across different parts of the financial system.

CONCLUSION

The cases examined in this report, comprising foreign bank retreats and domestic bank and NBFC stress episodes span over two decades of India's financial sector history, encompass institutions of radically different origins and purposes, and were shaped by macroeconomic conditions, competitive dynamics, and regulatory frameworks that changed substantially over the period. They showcase consistency in three foundational lessons.

The first is that retail and MSME banking in India is a scale game, and it cannot be entered incrementally. Every institution that has tried to build a mass-market lending business from a narrow base has eventually confronted the same arithmetic: the minimum viable scale for this market is substantially higher than entry assumptions allow, and the path from sub-scale to viable is longer, more expensive, and more operationally demanding than any growth forecast predicts. Foreign banks learned this in retail deposits. The domestic incumbents that dominate today did not achieve scale and then win, they won because they had spent decades building the branch density, deposit franchises, and borrower relationships without which competitive lending economics are simply unavailable.

The second lesson is that regulatory compliance in India is not just a cost of doing business but a key factor in determining whether a business model is viable at all. Foreign banks found that PSL obligations were not a manageable overhead but a structural constraint that limited the loan segments they could profitably serve and drained NIM through mandatory RIDF deposits. The RBI's stance has become more assertive and quick-moving over time, as demonstrated by reforms spanning 2013–2025: the WOS framework for foreign banks, revisions to the Prompt Corrective Action framework, the scale-based NBFC regulation, the PSL Master Directions of 2025, and the digital lending guidelines. Institutions that see the current framework as a stable set of rules rather than an evolving set of expectations will likely be caught off guard. Those who view regulatory engagement as a strategic function gain a genuine competitive advantage.

The third and most fundamental lesson is that governance quality — and the trust it generates — is the most predictive factor in determining which institutions survive stress and which do not. At Yes Bank, a board that failed to exercise independence from promoter-driven lending allowed connected exposures to build up until they were existential. At PMC Bank, systematic concealment of a 73% single-borrower concentration persisted only because oversight had been thoroughly captured. At RBS India, the governance failure was structural: the lack of a local institutional anchor capable of resisting a London-level decision on capital reallocation, regardless of operational merit on the ground. What connects these cases is the consistent failure of governance structures, whether at the board, product design, or group strategy, or regulatory compliance level, to provide the independent oversight needed to constrain these risks before they became fatal.

Looking ahead, the question is not whether India's retail and MSME lending market will grow; it will, significantly and for a long time. The real question is which institutions are best positioned to capture that growth. Domestic private banks hold the most secure position: they have the branch density, CASA franchises, and regulatory relationships that this market requires. Their challenge lies in execution quality rather than market access. Foreign banks that have accepted the structural ceiling focusing on wholesale banking, trade finance, and wealth management, have found a profitable and sustainable niche. The institutions that have succeeded, HSBC's continued wealth management presence, and Standard Chartered's pivot to institutional and premium client banking, have done so by making explicit, board-level governance decisions about the segments in which they can compete with genuine advantage, and by exiting the segments where they cannot. DBS India's transformation through the Lakshmi Vilas Bank acquisition is clear evidence that the structural restrictions on foreign banks are not absolute, but that route required a distressed acquisition, patient capital, and a decade of rebuilding. This illustrates rather than contradicts the main point of this report.

India favours institutions that commit to it on its own terms and the ways in which that commitment can be structured are broader and more varied than the foreign bank experience of the past two decades might suggest. The RBI's reform programme has, if anything, expanded the set of entry points available to well-capitalised and strategically focused institutions. The cooperative banking sector, with over 1,500 urban cooperative banks holding combined deposits of over ₹5 lakh crore, represents a significant and largely underleveraged opportunity for institutions seeking to rapidly acquire a branch network, a deposit franchise, and an existing regulatory relationship. The precedent set by DBS Bank India's acquisition of Lakshmi Vilas Bank has demonstrated that such a path is regulatorily viable and commercially productive, and the framework for similar transactions is now better understood by both the RBI and potential acquirers.

Beyond acquisitions, the proposed disinvestment of the Government's stake in IDBI Bank, and the Sumitomo Mitsui Banking Corporation's reported strategic interest in Yes Bank, point to a category of opportunity that did not exist for earlier generations of foreign bank entrants: the acquisition of, or strategic partnership with, established private sector banks that already carry a deposit franchise, a branch network, and regulatory relationships. These are paths to the scale and trust that organic branch-by-branch growth could never have delivered quickly enough.

For institutions that are not seeking balance sheet acquisitions, India's market continues to offer compelling niche opportunities - in trade finance and supply chain banking for the substantial India-linked corporate client base, in cross-border wealth management for India's rapidly growing ultra-high-net-worth population, in sustainable finance and green infrastructure lending where global expertise translates directly into market differentiation, and in institutional markets where foreign banks' global networks and product capabilities remain genuinely unmatched. The path to sustainable profitability in India for a foreign bank is not, and need not be, the same as the path taken by HDFC Bank or SBI. It is a path defined by clarity of purpose, alignment with the regulatory environment, and a long-term view of the market's evolution. That path remains open, and the institutions that walk it with patience and precision will find India one of the most rewarding banking markets in the world.

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