



Bank Bodhi

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The Quarterly Macro-Scan & Micro-perception

MACRO-SCAN

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<u>Quarterly Bank Lending Survey R2</u>	<u>Smita Roy Trivedi &</u>
	<u>Balu Pawde</u>

LIST OF ABBREVIATIONS

BRIEF AUTHOR PROFILES

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Any errors or omissions remain the authors' responsibility

MACRO-SCAN

THIS QUARTER, WE REFLECT ON

*FCNR(B) SCHEME AND RUPEE: A PANACEA FOR DEPRECIATION?*¹

SMITA ROY TRIVEDI

Rupee depreciation continued to dominate the headlines this quarter, as did the FCNR (B) deposit scheme launched in June 2026 to salvage rupee. Indian banks are, at present, working out the modalities of a revamped FCNR(B) scheme to attract NRI deposits, that can substitute for the sharp FII outflows that have plagued the markets since January 2026.

What makes the scheme work? First, the removal of the ceiling on interest rates by the RBI helps (RBI, June 17, 2026): with some banks are offering an interest rate as high as 7.5% on FCNR(B) deposits significantly above the domestic deposit rates helps to draw the NRI deposits.

Second, the leverage permitted by the RBI (RBI FAQ, June 23, 2026) allows customers to take loans against these deposits, with leverage being offered by banks anywhere between 9 to 19 times. Conservatively, an NRI with a US\$1 million deposit can borrow US\$9 million against it and invest a total of US\$10 million, while continuing to earn 7.5% on the total investment, earning a total return exceeding 15% at the correct interest rate.

Thirdly, for both banks and customers, the deposits and returns are hedged against future depreciation, with the central bank bearing the hedging cost under swap arrangements (RBI, June 8, 2026).

¹ Roy Trivedi, S and Das A, FCNR(B) SCHEME, RUPEE AND THE SINS OF CENTRAL BANKING: REVISITING TARAPORE IN THE PRESENT TIMES, Upcoming, HBL-Op-Ed

This inflow of deposits assumes importance in the Indian context, given that Indian banking system has seen stagnating deposit growth for some time now: low deposit growth became such a cause of concern for the banking sector that Shri Shaktikanta Das, the then Governor of RBI, urged banks to adopt new strategies to attract deposits and manage liquidity risks effectively (Das, 2024).² With banks in India struggling to mobilize deposits, FCNR(B) is a much-needed source of funding. Certificates of Deposit (CDs) are increasingly being used to finance credit growth, as credit has far outpaced deposit growth in recent years.

However, for garnering adequate funds for the FCNR (B) banks are borrowing from overseas markets, and the large number of Indian banks accessing these markets is already pushing borrowing costs upwards. Larger banks have an advantage here, as they already possess overseas dollar funding that can be deployed.

What are the concerns?

First, for both NRIs and banks, the success of the scheme depends on the possibility of leverage. If borrowing costs increase in global markets, it puts pressure on the extent of leverage and reduces the attractiveness of the scheme. Banks must deploy the funds successfully, as these deposits are priced higher than domestic deposits.

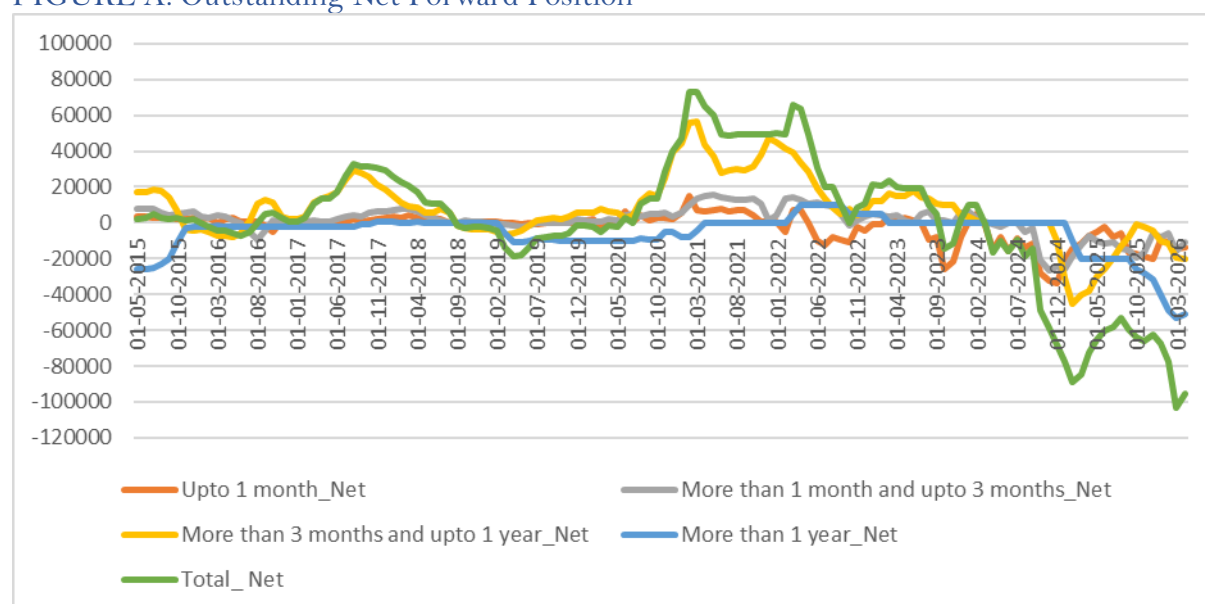
² Current issues in the Indian banking and financial sector: Inaugural address by Mr Shaktikanta Das, Governor of the Reserve Bank of India, at the Financial Express Modern Banking, Financial Sector and Insurance (BFSI) Summit, Mumbai, 19 July 2024.

Second, there is a concern regarding the central bank's balance sheet. The FCNR(B) inflow today will be converted into an outflow of dollars five years down the line. Implicitly, the central bank is committing to meeting future dollar demand, effectively increasing dollar dependence.

Thirds, RBI will have a growing short dollar book already inflated with interventions till date. The present position of the central bank can be analysed in terms of the foreign currency assets held. Figure 1 shows how, in the recent past, the RBI's short dollar position has swelled, while Figure 2 presents this position as a percentage of foreign exchange reserves.

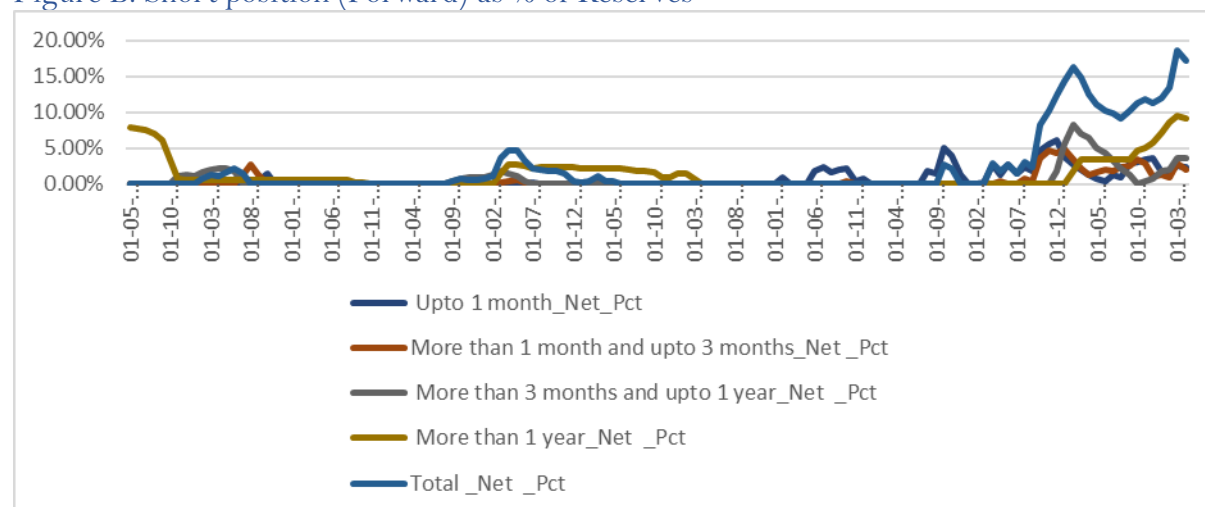
As we can see, RBI's net short forward commitments have increased to close to 20% of Foreign Currency Assets. In other words, around 80% of the reported FCA remain unencumbered for future intervention. As the RBI's short dollar position expands, its contingent foreign currency liabilities swell. Experience from South Africa for example suggests how large forward dollar commitments effectively weaken reserve buffer (BIS, 2019).

FIGURE A: Outstanding Net Forward Position



Raw data Source: RBI Database, Authors' calculations

Figure B: Short position (Forward) as % of Reserves



Raw data Source: RBI Database, Authors' calculations

Given the inflow of deposits, of crucial importance in the deployment of funds. Stringent appraisal standards and consistent monitoring would remain the hallmark of good credit policy. The on-ground realities, as captured in our results of the NIBM lending perception survey presented in Micro-perceptions highlight this.

Carrying forward the story, argued by [Balu Pawde in Section II](#), Realised GDP continued to exceed SPF expectations throughout FY2026, although the gap narrowed as forecasters revised growth projections upwards. The composition of growth indicates that household consumption remained resilient despite some moderation towards Q4. We highlight the external sector dynamics, linking to the previous analysis of rupee depreciation and the central bank intervention to helped to contain volatility ([Section III](#)).

On the Credit side, [Elizabeth James discusses in Section IV](#) that the growth in credit from Q3 to Q4 25 was massive from credit consumption by

NBFCs, CRE (Commercial Real Estate) and Trade. Debaditya Mohanti shows in Section IV the period showed a stable surplus liquidity and improved money market conditions. The moderation in liquidity absorption and the sharp decline in volatility in both the call money and triparty repo markets suggest that the liquidity management was effective during this quarter and the moderation did not create undue stress in the money markets.

The Financial markets reflect the concern with bond yields and robust recovery of Equity Indices in this quarter, analysed by Yashveer Rawat in section VI. We continue the AI story, with an insight from Pramod Mane on how while Artificial intelligence (AI) is widely seen as the future of lending, but making it work smoothly remains a challenge, focusing on AI driven lending (Section VI).

In Micro perceptions, we present the results of the QBLS R2, which highlights moderated lending condition, and robust demand. It also highlights a few key pointers about credit demand as gleaned through the qualitative interviews.

I. GROWTH AND INDUSTRIAL MOMENTUM

BALU PAWDE

In the previous two editions, we traced India's evolving growth trajectory by systematically comparing realised macroeconomic outcomes with expectations from the RBI's Survey of Professional Forecasters. They highlighted a pattern of growth consistently outperforming expectations, driven by resilient domestic demand, strong services activity, improving industrial momentum, and a supportive low-inflation environment, even as agriculture moderated. The evidence also suggested that high-frequency indicators broadly corroborated the underlying growth dynamics while expectations gradually converged towards realised outcomes. Against this backdrop, the current section revisits these developments to assess whether the economy has sustained its momentum, how the composition of growth has evolved, and what the latest data imply for the near-term macroeconomic and banking outlook.

Figure 1 compares realised GDP growth from MoSPI with RBI's Survey of Professional Forecasters (SPF), alongside the performance of household consumption (PFCE) and investment (GFCF). Realised GDP continued to exceed SPF expectations throughout FY2026, although the gap narrowed as forecasters revised growth projections upwards. The composition of growth indicates that household consumption remained resilient despite some moderation towards Q4, while investment strengthened steadily and consistently outperformed expectations, emerging as the principal driver of growth. SPF projections for FY2027 suggest moderation in GDP, consumption, and investment growth, but recent trends indicate that domestic demand, particularly investment, remains more resilient than anticipated.

Figure1. India's Recent GDP Growth

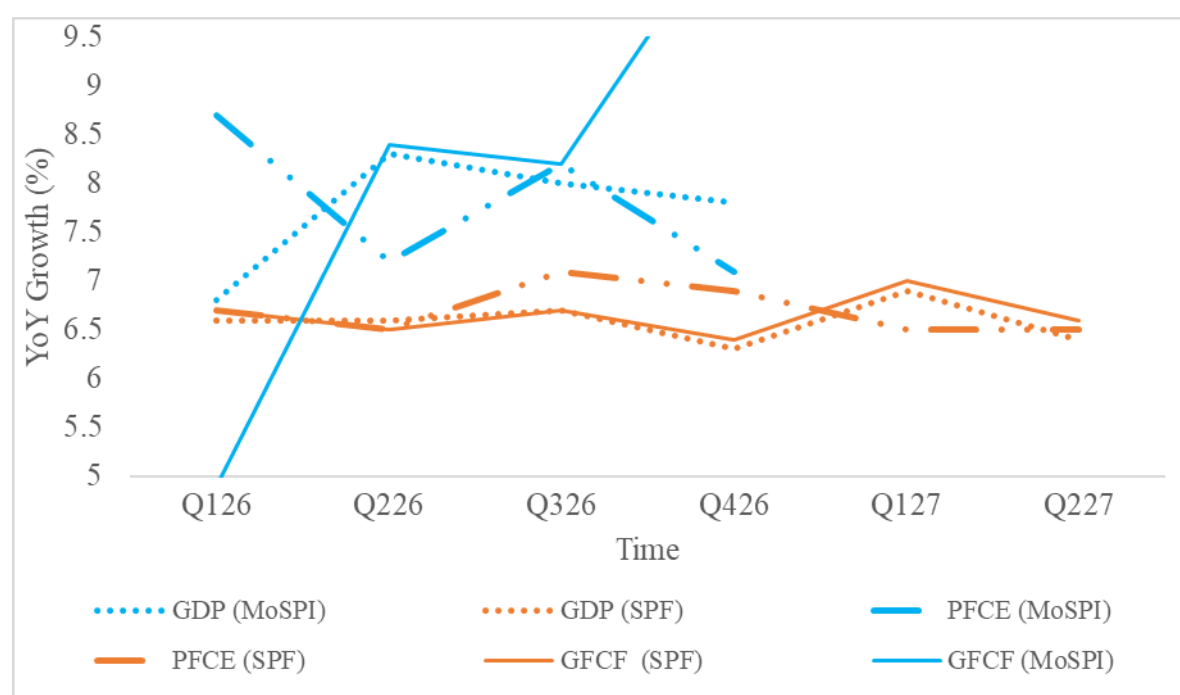


Figure 2 shows that the overall GVA remained resilient, growing around 7.9 per cent in Q4 FY2026 after peaking at 8.6 per cent in Q2. The composition of growth, however, continued to evolve. Services remained the principal growth engine, consistently outperforming SPF expectations and stabilising around 10 per cent. Industrial growth, after peaking above 10 per cent in Q2, moderated to about 7.4 per cent by Q4, yet remained stronger than anticipated. Agriculture recovered from its Q3 slowdown but continued to underperform SPF projections. Looking ahead, SPF expects stable services-led growth, moderate industrial expansion, and continued softness in agriculture during Q1 FY2027, suggesting that sectoral divergence is likely to persist despite overall macroeconomic resilience.

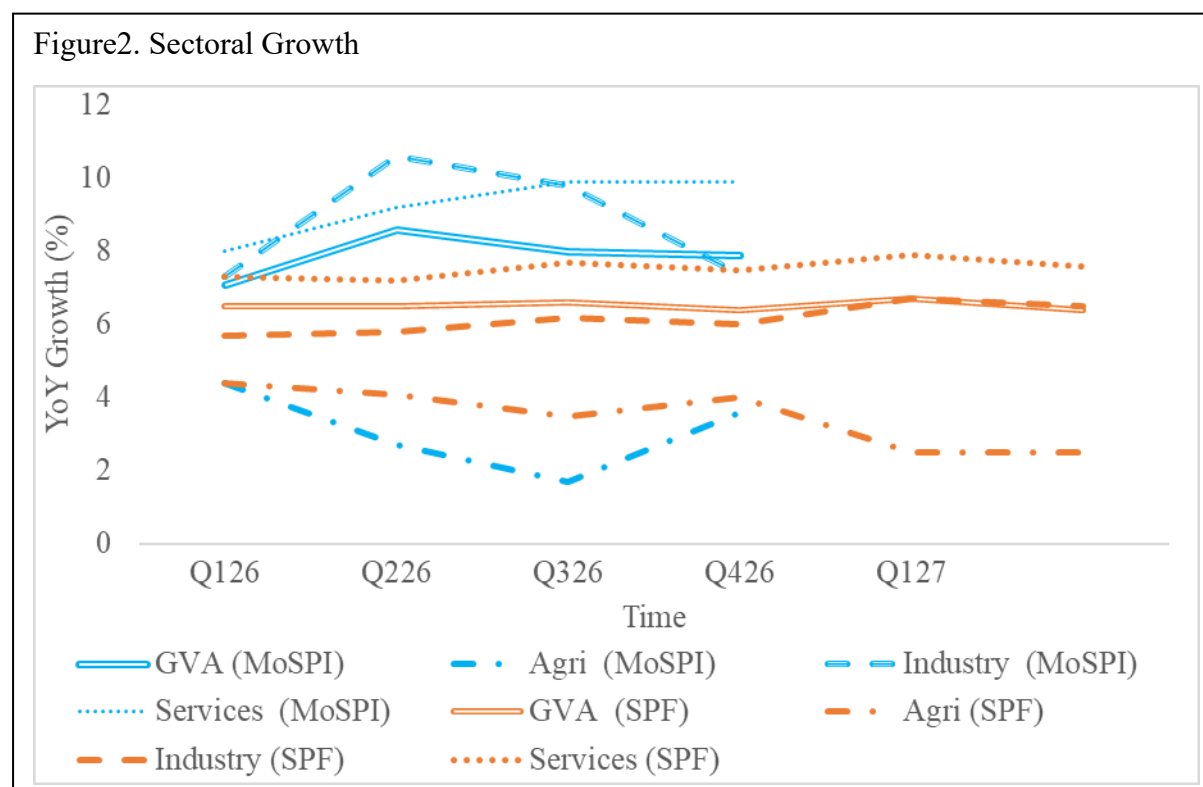


Figure 3 suggests that business sentiment remained consistently expansionary, with all PMI indices staying above the 50-point threshold despite some moderation. Industrial production, however, continued to exhibit greater volatility. The recent improvement in IIP broadly supports resilient GDP growth, although SPF projections indicate industrial momentum may moderate in the near term while remaining positive.

Figure4 completes the macroeconomic assessment by tracing the recent evolution of headline CPI and WPI inflation alongside SPF expectations. Following a prolonged period of disinflation, both inflation measures have moved upwards since late FY2026, with WPI increasing sharply from negative territory and CPI approaching the SPF projections. The expected inflation trajectory points to further firming in the coming months, suggesting that the favourable low-inflation environment that supported growth may gradually ease. This could influence household consumption, investment decisions, and the future interest-rate environment.

Figure 3. Sectoral Growth

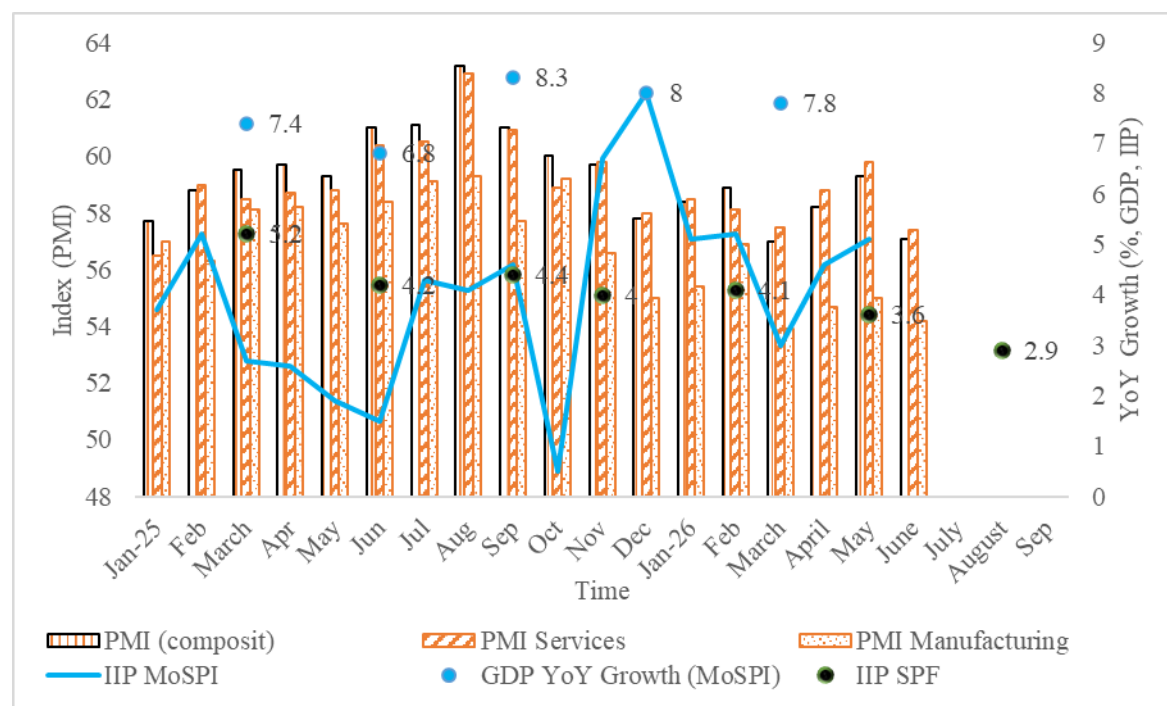
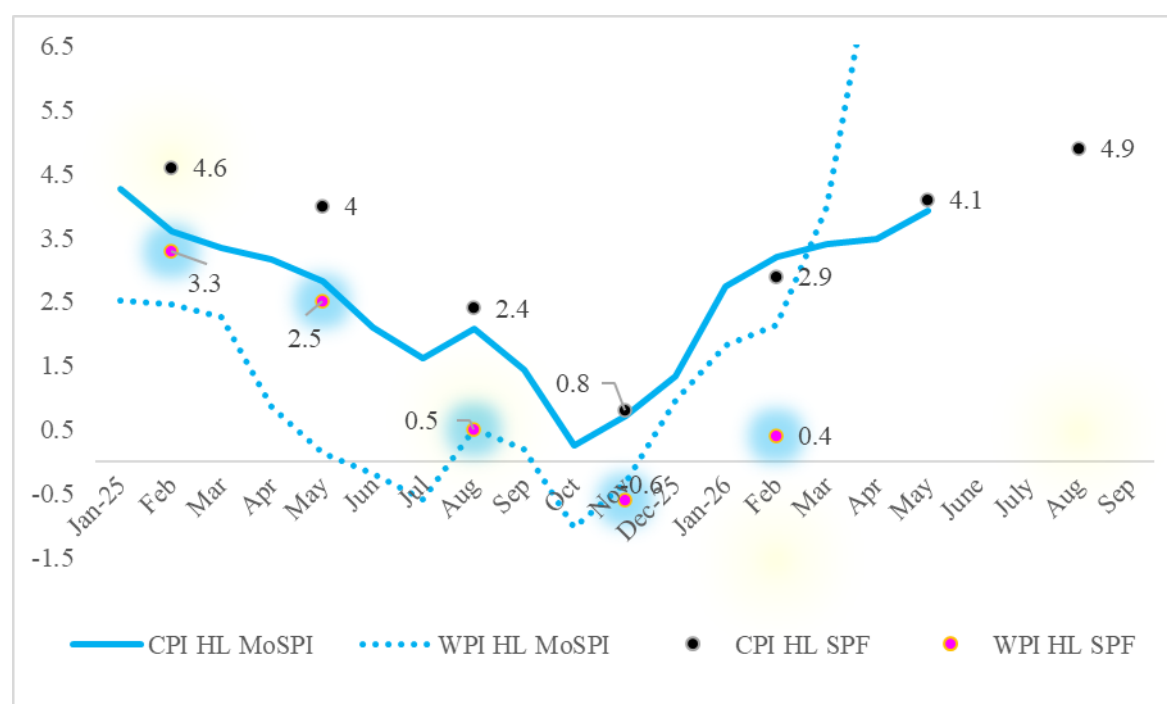


Figure 4. Inflation Dynamics



Taken together, the latest evidence points to an economy that continues to exhibit resilience despite signs of moderation in some growth drivers.

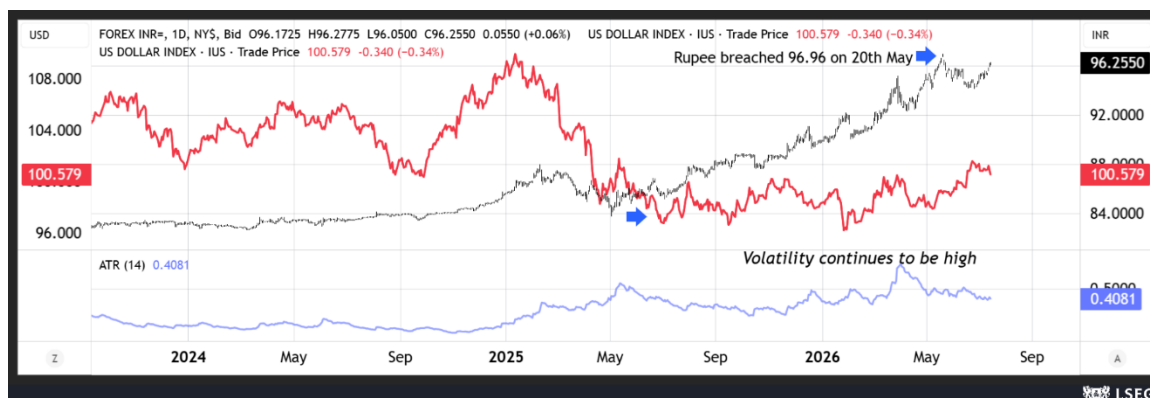
Investment remains the principal source of growth momentum, while services continue to anchor overall economic activity even as industrial growth normalises and agriculture remains relatively weak. High-frequency indicators broadly corroborate sustained business confidence, although industrial production continues to display short-term volatility. Inflation has moved away from the exceptionally low levels observed in earlier quarters and is expected to firm further. Consequently, credit demand is likely to remain broad-based, while a gradually strengthening inflation environment may influence future monetary policy and interest-rate expectations.

II. *EXTERNAL SECTOR DYNAMICS*³

SMITA ROY TRIVEDI

On the external front, all eyes remain on the rupee in the last quarter with Indian rupee hovered close to 97 in May 20th, 2026. While the RBI intervention continues, rupee continues to be vulnerable. Going forward, we expect this pressure to continue. First, as Figure III.A shows, there has been sustained depreciation in the currency from July 2025 onwards, which continued in tandem with the dollar weakening as seen from the DXY index movement. As rupee continues to hover on the 96-mark, the dollar index rising or finding support is likely to put pressure on rupee.

Figure III. A: Rupee and dollar index



Source: LSEG, Authors' annotations

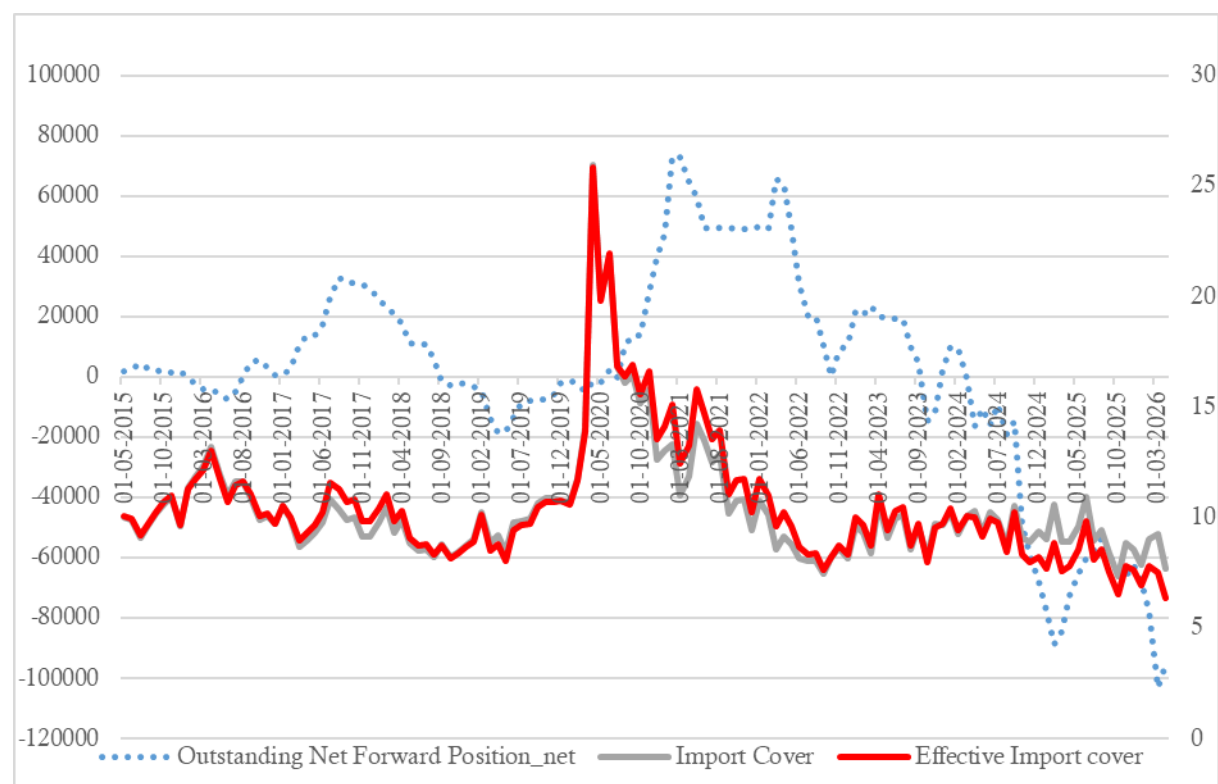
Second, pressure on the trade balance will be driven largely by crude as shown in Figure III.B. Import demand is mostly being driven by crude, and have played a crucial role in the rupee fall, even though the oil prices started falling in the last part of the quarter. Merchandise exports during June 2026 were US\$ 40.41 Billion as compared to US\$ 34.98 Billion in June 2025. Merchandise imports during June 2026 were US\$ 70.84 Billion as compared to US\$ 54.08 Billion in June 2025, a substantial rise.

While RBI intervention in forex market has continued, there has been a growing concern on measures for intervention, especially the ballooning short position of RBI presented in the editorial section. We compare the Import Cover (Foreign currency Assets/ Average Monthly Merchandise Imports) with an Effective

³ Roy Trivedi, S and Das A, FCNR(B) SCHEME, RUPEE AND THE SINS OF CENTRAL BANKING: REVISITING TARAPORE IN THE PRESENT TIMES, Upcoming, HBL-Op-Ed

Import Cover $\frac{[(\text{Foreign Currency Assets} - \text{Net Short Forward Position}) / \text{Average Monthly Merchandise Imports}]$ in Figure 3. In recent months, effective import cover has fallen as we have intervened in spot and forward markets. With the FCNR deposit inflows, the short dollar book of the central bank will further increase, impacting the effective reserve adequacy.

FIGURE III. B. Effective Import Cover and Forward Position



Raw data Source: RBI Database, Authors' calculations

III. CREDIT OUTLOOK

The Q 4 Revelation: Understanding Year End Credit Dynamics

ELIZABETH JAMES

The Q 4 is the most consequential quarter as it marks the end of the financial year. Banks would want to close the books with a robust credit growth reflecting achievement of annual business targets. The Q4 tends to exhibit a seasonal increase in sectoral deployment of SCBs (Scheduled Commercial Bank) credit, possibly influenced by year-end lending targets, business funding requirements, and balance sheet management practices of banks. An analysis is done to establish from Q3 to Q4 of FY 2020(Dec 2019 to March 2020) to Q3 to Q4 of FY2026 (Dec2025-March 2026)Y-o-Y, whether the bank's lending surges for NFC(Non Food Credit) under agriculture and allied services, Industry (which includes Micro and Small, Medium Enterprises and Large Corporates), Services sector and Personal Loans from Q3 to Q4 .From Table 1 it is evident that for agriculture and allied sector maximum increase fromQ3 to Q4 happened in Dec 25 to Mar26 to the tune of 5.38%. Agri-credit flow for FY26 surpassed a record Rs.32.5 lakh crore, according to NABARD (National Bank for Agriculture and Rural Development).The reason being formalization of rural credit and persistent rural demand, institutional credit to the agriculture sector through commercial banks and regional rural banks reached enormous proportions. The lacklustre period for this sector was the growth during Q3 Dec-22 to Q4 Mar 23 wherein rise was only by 0.06%.The reason being growth was battered by erratic monsoon leading to moderate kharif crop production resulting in restricted rural consumption and income visibility. Industry in totality had attracted maximum credit from Q3 to Q4 of Dec20 to Mar21 and in Dec 25 to Mar26. Under Industry the micro and small enterprises attracted growth in credit in the range of 2.56% to 5.85%. The rise from Q3 to Q4 in credit to micro and small was maximum in Dec20 to March 21 to the tune of 5.85%.The government's Emergency Credit Line Guarantee Scheme (ECLGS) and other pandemic stimulus packages intended to aid small firms in their recovery were the main drivers of this enormous increase And also there was a last-minute rush for credit disbursements in the last quarter of the fiscal year after the RBI extended the ECLGS until March 31, 2021, and beyond. The credit to Medium enterprises

witnessed massive momentum from Q3 to Q4 of FY21(Dec 2020 to March 21) to the tune of 11.99% due to the reclassification boost and ECLGS catalyst. Q 3 to Q4 increase in credit to large enterprises throughout the period of study was between 0.49 % to 4.82% .

Q3 to Q4 Growth rates sector wise from (Q3Dec2019 to Q4 Mar2026)							
Sector	Dec-19 to Mar-20	Dec-20 to Mar-21	Dec-21 to Mar-22	Dec-22 to Mar-23	Dec-23 to Mar-24	Dec-24 to Mar-25	Dec-25 to Mar-26
Agriculture & Allied	2.16%	3.82%	0.06%	3.52%	4.03%	2.15%	5.38%
Industry (Total)	3.46%	4.17%	3.04%	1.19%	1.65%	2.37%	4.41%
Micro and Small	5.63%	5.85%	4.13%	3.50%	3.43%	2.56%	4.37%
Medium	1.66%	11.99%	2.81%	0.49%	4.69%	3.57%	4.82%
Large	3.19%	3.42%	2.81%	0.69%	0.83%	2.16%	4.36%
Services	7.63%	3.95%	4.05%	3.22%	3.33%	3.83%	7.07%
Personal Loans	4.69%	5.63%	3.38%	3.82%	3.06%	2.74%	4.51%
Source: RBI data, Author's calculation							

During Q3 and Q4 (December 2019 to March 2020), credit growth to Micro and Small Enterprises (MSEs) was remarkably high. Emergency Priority Sector Lending (PSL), the relaxation of Reserve Bank of India Restructuring guidelines for standard assets, and the RBI's aggressive lending targets for Scheduled Commercial Banks were the main causes of this spike. The services sector's credit movement from Q3 to Q4 was maximum from December 2019 to March 2020. Many NBFCs significantly shifted from the bond market to bank borrowings prior to March 2020 due to liquidity strains brought on by individual credit defaults. The credit figures for the services sector were significantly inflated by this increase in bank lending to NBFCs. The growth in credit from Q3 to Q4 of Dec 24 to Mar 25 was massive which is attributed to credit consumption by NBFCs, CRE(Commercial Real Estate) and Trade. Credit offtake under Personal

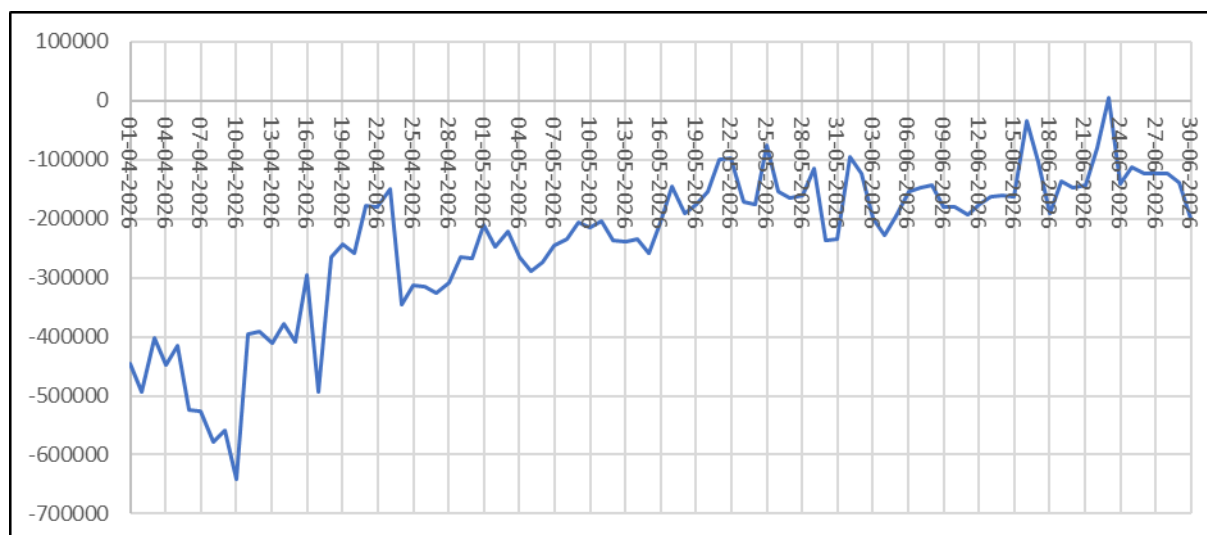
loans was maximum during from Q3 December 19 to Q4 March 20 to the tune of 4.69%. This period witnessed a significant change in the Indian banking which was bank's made a significant shift to retail during this time as overall industrial lending slowed, increasing the household sector's proportion of total outstanding credit to more than 50%.

Finally, a take on the increase in credit from Q3 to Q4 of FY2026 (Dec 25 to March 26) shows maximum growth for services sector (7.07%), followed by agriculture and allied activities (5.38%), medium enterprises (4.82%), personal loans (4.51%) and the sector which showed lowest growth among the subsectors was credit to large corporates (4.36%). Given the strong appetite for credit by services sector banks can capitalise on the unrealised potential of lending to this sector.

IV. *LIQUIDITY AND MONEY MARKET*

DEBADITYA MOHANTI

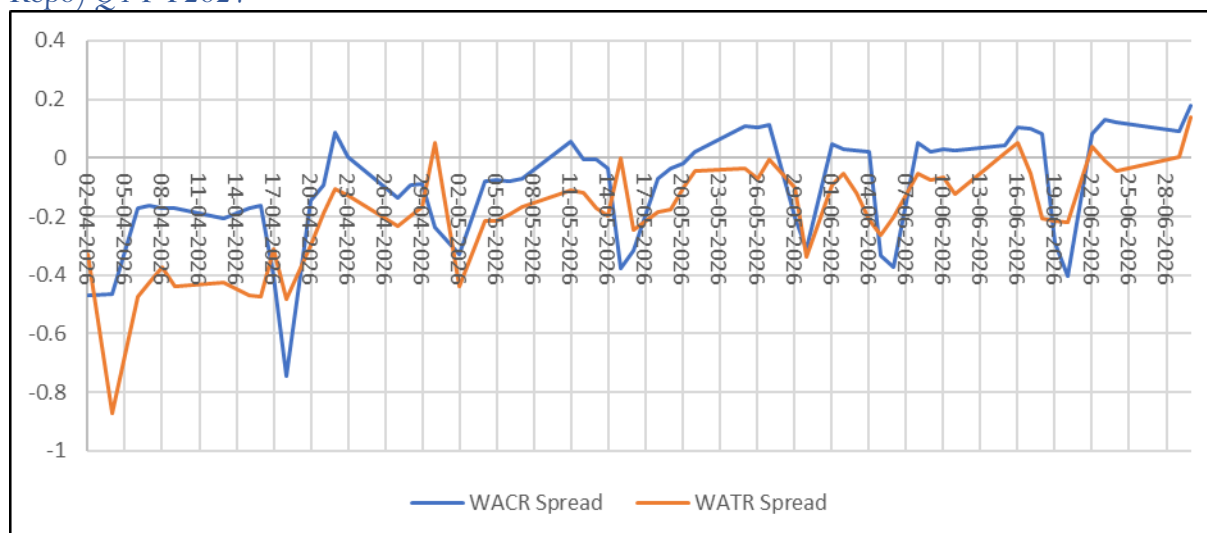
Figure V.A: Liquidity Operations by RBI: Net Injection (+)/ Absorption (-) Q1 FY2027



Source: RBI DBIE

Note: Net Liquidity Injection (+)/ Absorption (-) (includes LAF, OMO and others) in Rupees Crores

Figure V.B: Daily WACR Spread (over Policy Repo) and WATR Spread (over Policy Repo) Q1 FY2027



Source: RBI DBIE

Note: WACR: Weighted Average Call Rate and WATR: Weighted Average Triparty Repo Rate; Vertical axis is in percentage

Table V.A: Summary Statistics

	Q1FY2027 (WACR Spread)	Q4FY2026 (WACR Spread)	Q1FY2027 (WATR Spread)	Q4FY2026 (WATR Spread)	Q1FY-2027 (NLIQ)	Q4FY2026 (NLIQ)
Mean	-0.10	-0.08	-0.19	0.02	-237822.70	-253428.58
Median	-0.07	-0.15	-0.17	-0.20	202844.00	-297761.50
Maximum	0.18	1.65	0.14	5.19	4089.00	-13405.00
Minimum	-0.75	-0.70	-0.87	-1.15	640692.00	-585965.00
Std. Dev.	0.19	0.31	0.18	1.21	128471.34	134065.50
Observations	60.00	63.00	60.00	63.00	91.00	90.00

Source: Author's estimates

Note: WACR Spread and WATR Spread (figures in percentage); NLIQ: Net Liquidity Injection (+)/ Absorption (-) (includes LAF, OMO and others) in Rupees Crores;

Q1FY2027: Apr-Jun 2026 & Q4FY2026: Jan-Mar 2026

Liquidity Conditions and Money Market Signals in Q1 FY2027

Figure V.A shows that the Liquidity conditions in the banking system during Q1 FY2027 (April-June 2026) continued to be in surplus and remained largely in absorption mode. The average net liquidity absorption has marginally declined to around Rs. 2.38 lakh crore in Q1 FY2027 from Rs. 2.53 lakh crore in Q4 FY2026. From Table V.A, it can be seen that the median absorption has substantially eased to around Rs. 2.03 lakh crore from about Rs. 2.98 lakh crore in Q4 FY2026. This indicates that liquidity conditions in Q1 FY2027 have been somewhat less skewed towards large surplus balances. Unlike Q4, Q1 FY2027 has also witnessed some instances of net liquidity injection, with a maximum injection of about Rs. 4,089 crores. This suggests that the RBI adopted a more flexible approach in managing day-to-day liquidity.

It has been observed that the WACR has been closely aligned with the policy repo rate during this quarter Q1 FY2027, as shown in Figure V.B. The WACR hovers around 10 basis points below the policy rate during Q1 FY2027. However, the most important development to note was the sharp decline in volatility. The standard deviation of WACR spread fell from 31 basis points in Q4 FY2026 to 19 basis points in Q1 FY2027. This suggests that the overnight funding conditions have become considerably more stable during Q1 FY2027.

The average WATR spread, as shown in Table V.A, has decreased to about -19 basis points in Q1 FY2027 from a positive spread of 2 basis points in Q4 FY2026. This shows

that the rates in collateralized segment were mostly hovered below the policy repo rate during the first quarter Q1 FY2027. The volatility in the WATR spread has also drastically declined, from 1.21 percentage points standard deviation to just 0.18 percentage points standard deviation. The substantial reduction in dispersion and no signs of abnormal upward spikes that were observed in the earlier quarters suggest a smooth functioning of the collateralized funding market.

Overall, from the charts and summary statistics of the Q1 FY2027, it can be suggested that the period showed a stable surplus liquidity and improved money market conditions. The moderation in liquidity absorption and the sharp decline in volatility in both the call money and triparty repo markets suggest that the liquidity management was effective during this quarter and the moderation did not create undue stress in the money markets. Unlike previous quarters, the behavior of the WATR also seems to converge with the WACR. This suggests efficient pass-through in both unsecured and collateralized segments of the money market.

V. FINANCIAL MARKET DEVELOPMENTS

YASHVEER SINGH RAWAT

The Equity Indices saw smart recovery at the start of the quarter with the NIFTY moving up from the lows of 22283 (formed at the end of March) and rallying up to 24600 by mid-April. The euphoria however, could not sustain on lack of clarity on the war outcome from both the adversaries Iran as well as US and the indices continued to see pressure. FII remained net sellers of Indian equities as the sentiment worsened due to rising bond yields across the globe. A depreciating Rupee added further pressure on the Indices. Various measures were taken by the RBI & the GOI to reverse the outflow of dollars from the country. These measures helped change a sentiment a bit in the month of June, however the market stayed within a broad range of 23000 – 24000. Banking sector, real estate & NBFC saw some good traction after the policy measures were announced. Metals, Oil & Gas sector saw correction as the oil prices corrected by around 30% from the highs of USD 117 a barrel.

On technical charts the Nifty has stayed below the up trending channel for four months and indicate a sideways trajectory for the market. A Divergence on Monthly charts between the Nifty & RSI also point towards a continuation of sideways trend.

Expect the Nifty to remain in a broad range of 23000 – 25000 for the next quarter



Bond yields continued the uptrend from the last quarter closing levels of 6.96% owing to concerns of worsening fiscal situation due to rising crude prices on account of prolonged

war in West Asia. The closure of the strait of Hormuz further raised concerns of inflation across the globe and we could see the bond yields rising across the countries. Rate hikes were seen by the ECB as well as Japanese Central Bank among the major central banks. The US fed although kept the rates intact however the stance was hawkish putting pressure on the yield. The US yield curve saw a bear flattening after the Fed policy as the shorter tenor (2 Year) bond went up by 10 basis point whereas the longer term (10 - 30 year) coming down by 8 bps.

The RBI in its policy allowed the PSUs to borrow ECBs from overseas market and subsidising there hedging cost by 1.5%, it also allowed the banks to raise the FCNR deposits at aggressive rates by allowing them hedging at zero cost. These measures together changed the sentiment a bit as the market expected inflows of USD 50 – 60 billion and the yields softened across the tenors by 40 bps. Further, a statement by the RBI governor terming the discussions on rate hike to be pre mature brought buying in the bond markets and the 10-year benchmark closed at 6.71%.

On Monthly technical charts the 10-year benchmark (IN10YT=RR) have tested the lower bound of the channel and expected to take support at 6.70%. The yields are expected to trade in abroad band of 6.70% -7.00% for the quarter.



VI. IS INTEGRATION THE MISSING LINK IN AI-DRIVEN LENDING?

PRAMOD MANE

A loan officer is looking at a dashboard that claims to provide all the clarity needed. The system has done thousands of calculations within seconds, flagged the risks, made recommendations, and even provided its reasoning. On paper, it seems that the future of banking has been realized. However, once the loan officer attempts to validate the recommendation, things take an entirely different turn. Information in one system does not tally with information in another system. A required input is missing. A compliance check cannot be traced properly. The decision that seemed instant now needs manual intervention.

This is not an unusual situation. It reflects a broader reality in banking today. Artificial intelligence (AI) is widely seen as the future of lending, but making it work smoothly remains a challenge.

Recently published Experian's report {https://www.experian.com/blogs/global-insights/wp-content/uploads/2026/01/Perceptions_of_AI_in_lending.pdf} on perceptions of AI in lending offers some interesting insights. According to Experian's study, 84 per cent of lenders consider AI implementation a high and critical strategic priority. Approximately 89 per cent expect AI to play a significant role throughout the lifecycle of the loan – from origination through collection. Expectations are quite high, and 78 per cent of participants anticipate better operational efficiency, 77 per cent – improved decision accuracy and, finally, 61 per cent – better risk management. Despite such great prospects, 38 per cent say they are still unable to get value out of their AI solutions.

It turns out that banks trust in AI solutions, and only experience difficulties in implementation. It is convenient to describe such issues using the notions of AI models and data.

However, the root cause of problems in applying AI is different. It is related to the fact that AI solutions are to be integrated into existing systems of a bank.

Integration of an AI solution requires its compatibility with other systems and processes of a bank. Otherwise, even the best model will fail to produce accurate and reliable results.

Such issues often emerge because of the nature of the legacy systems used. Existing software systems are designed in a way that does not allow for continuous data exchange or timely decisions. Integrating AI into this infrastructure does not mean that these systems need to be changed in any way. On the contrary, AI applications are usually superimposed onto the existing system, creating additional layers of connections that could be fragile or problematic to maintain.

Problems related to data are also very common. As a rule, information relevant to a particular decision is located in different sources. Customer data, transactional data and credit history information can sometimes differ from each other, and a mismatch here can create unexpected results of AI models. It reduces the credibility of such solutions.

Finally, there is also the issue of multiple suppliers. Banks are likely to cooperate with several vendors and to utilize numerous applications. They usually do not operate under one standard and might not interoperate at all. This fact could complicate operations and increase complexity instead of reducing it.

When banks go for integration, it raises an important concern about data privacy that banks cannot afford to overlook. This further complicates the decision to integrate systems for banks. For instance, when more data is combined by banks from various systems for improving the performance of AI, the higher the likelihood of exposing sensitive personal data. Here, personal data is passed from one system to another and even to outside organisations; it may become hard to control its access.

One thing should be clear: integration is not only about making systems work together. But it is also about ensuring that sensitive data is handled responsibly. If systems are poorly connected, then it becomes impossible to keep an eye on how data is processed, putting sensitive data at risk. And all these increase the risk of

misuse of data, ultimately weakening the trust of customers as well as regulators, something banks cannot afford to lose.

All this leads to the fact that integration of AI into lending process is crucial here. Any lending decisions impact people directly, determining whom a bank will lend money to and whom it will not. It is noted that such automatic decisions should be transparent and easily explained to regulators and even to customers (if asked for). However, as it has been shown above, explainability cannot be ensured unless integration of the system is done right.

Such problems are evident from the Experian research as well. The study reveals that integration complexity becomes a major barrier to implementing AI into the workflow. Other challenges that have emerged include uncertainty of returns, expenses and lack of in-house expertise in the area.

As a result, many pilots of the AI solution prove to be highly successful. However, further expansion of the project leads to a number of problems related to poor integration of the solution.

Apart from that, there is an additional cost to consider. Such issues cannot be easily estimated when planning budgeting. Nonetheless, integration complexity increases expenses, elongates development timelines and, eventually, decreases returns on investment. Teams spend time on solving integration-related problems instead of optimising the system. Development costs increase significantly and lead to failure in achieving expected results.

Thus, integration becomes a kind of silent barrier against adopting AI in lending. However, current measures do not seem to address this problem fully. Many financial institutions prefer to develop new capabilities rather than fix the existing integration gaps.

To solve the problem, attention needs to be paid to system integration. First of all, this means enhancing communication between systems in order to provide easy data exchange between various departments of the institution. Simplification of connections between systems would also be beneficial. Moreover, it is necessary to ensure proper decision-making process in a particular application.

Governance becomes equally important. It should be introduced at the initial stages of development and implemented properly. Every decision should be easy to track, explain and audit.

Cooperation with partners can help in this situation as well. Financial institutions are not required to resolve these problems independently. However, cooperation with a trusted vendor will allow them to introduce a well-integrated and harmonious system. It also becomes vital to have clear guidelines regarding cooperation and system governance.

At the moment, India faces a good chance to leverage the achievements in digital infrastructure and promote greater financial inclusiveness. At the same time, this makes it even more important to make sure that using more data in AI-driven lending doesn't hurt customer privacy. It is quite challenging due to the diversity of existing systems; however, it will bring many advantages. If this problem is not addressed, it will become a major obstacle to introducing AI effectively.

AI can bring many changes into lending industry. Efficiency, improved decision quality and better service delivery will all become possible due to these advancements. But these improvements are possible only in case financial institutions can integrate AI into their workflow.

It is necessary to shift attention away from the discussion of relevance of this technology. There is a consensus that AI is beneficial for banking now. It is essential to determine whether banks are ready to deal with integration issues, not only to improve performance but also to ensure that customer data is handled in a manner that people can trust. Otherwise, they will continue to enjoy success stories during presentations but to fail on practice.

LIST OF ABBRVIATIONS

- **DEX** – US Dollar Index
- **FII** – Foreign Institutional Investor
- **GATT** – General Agreement on Tariffs and Trade
- **GDP** – Gross Domestic Product
- **GFC** – Global Financial Crisis
- **GFCF** – Gross Fixed Capital Formation
- **IN10YT=RR** – Reuters Instrument Code (RIC) for India 10-year Government Bond Yield
- **INR** – Indian Rupee
- **MACD** – Moving Average Convergence Divergence
- **MoSPI** – Ministry of Statistics and Programme Implementation
- **OMO** – Open Market Operations
- **PCFC** – Pre-shipment Credit in Foreign Currency
- **PFCE** – Private Final Consumption Expenditure
- **RBI** – Reserve Bank of India
- **RSI** – Relative Strength Index
- **SPF** – RBI's Survey of Professional Forecasters
- **TREPS** – Tri-party Repo (Treasury Bills Repurchase) / Tri-party Repo Dealing System
- **WACR** – Weighted Average Call Rate
- **WTO** – World Trade Organization

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We look forward to hearing from you.

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