

● COST-TO-INCOME RATIO TO GO UP

Banks spend big on hiring, tech

Operating expenses of private lenders rise 26% for FY23; PSBs witness 16% increase

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Mumbai, August 15

OPERATING EXPENSES (OPEX) of banks have sharply risen in recent years as a result of increased spending on new hiring and technology.

“When you embark on the digitisation journey, you incur initial costs on on-boarding a digital team, product teams, support team and technology,” says Bhavik Hathi, managing director, Alvarez & Marsal. “While on this journey, you do not phase out your traditional processes, products and employees, resulting in some overlapping cost for banks.”

In 2022-23 (April-March), operating expenses of private banks rose nearly 26% year-on-year, and staff cost increased nearly 21%. On the other hand, total income rose around 21%, data compiled by FE showed.

Similarly, operating expenses and staff cost of state-owned banks rose nearly 16% YoY in the previous financial year. Total income grew nearly 17%.

Higher spends by private banks can be attributed to an attrition rate of 30-50%, especially among

NUMBERS SAY IT ALL

12 PSU BANKS (₹ trillion)				% growth, y-o-y			Ratio (%)	
	Total income	Operating exp	Staff cost	Total income	Op exp/exp	Staff cost	Op exp/total income	Staff cost/Op exp
FY19	6.37	5.10	0.82	5.15	5.34	10.12	79.99	16.01
FY20	7.13	5.60	0.94	11.85	9.92	14.79	78.61	16.72
FY21	8.30	6.35	1.25	16.48	13.40	33.08	76.53	19.62
FY22	8.32	6.33	1.25	0.19	-0.45	0.11	76.05	19.73
FY23	9.71	7.32	1.45	16.77	15.67	15.93	75.33	19.77

19 PVT BANKS (₹ trillion)				% growth, y-o-y			Ratio (%)	
	Total income	Operating exp	Staff cost	Total income	Op exp/exp	Staff cost	Op exp/total income	Staff cost/Op exp
FY19	4.60	3.34	0.38	16.51	20.75	15.42	72.69	11.47
FY20	5.37	3.79	0.46	16.82	13.29	21.24	70.49	12.27
FY21	5.37	3.59	0.50	-0.05	-5.09	6.72	66.94	13.80
FY22	5.67	3.77	0.58	5.59	4.90	16.61	66.50	15.34
FY23	6.85	4.74	0.70	20.82	25.78	20.88	69.23	14.75

front-end staff. Specifically, employee cost of top private banks jumped by around 31-39% quarter-on-quarter for the June quarter. For public sector banks, it has risen 23-38%.

“Banks are tackling a huge issue of attrition and are attracting newer talent at a higher cost,” Harshvardhan Bisht, banking and capital markets leader, EY India, said, adding that the cost of acquisition of talent, training new talent and in some cases a hand-holding period may lead to over-

lapping of costs.

Most private banks are also acquiring technology skills at a significantly higher cost by onboarding skilled resources and experienced people in order to compete with financial technology companies.

Further, banks are budgeting a significant growth in branch banking, micro, small and medium-sized enterprises and rural businesses which are all employee-intensive ones. They have budgeted significant

employee hiring into their costs.

Private banks have added up to 40% additional employees in the second half of 2022-23, and the impact of the additional manpower costs incurred will be reflected in 2023-24.

While employee costs have contributed to the rise in overall expense, spends on branches are also significant. Since the onset of COVID-19, the Reserve Bank of India pushed lenders to digitise their customer facing and back-end operations which contributed to a rise in expenses, according to experts.

There are other factors for the rise in opex, like in cases of Axis Bank acquiring Citibank’s consumer business in India and Housing Development Finance Corporation merging with HDFC Bank. This has led to integration costs for both the banks.

Broadly, banks will likely see a rise in their cost-to-income ratios in near term because of spends on capital expenditure and branch expansion. However, an elevated current account savings account (CASA) ratio will compensate that and reduce the cost of funds, said experts.

“Over the medium term, opex should stabilise and taper down as a result of increased productivity and efficiency in the system,” Peeyush Dalmia, senior partner at McKinsey & Company, said.