KPMG

India insights

The Indian economy newsletter

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India at a glance: Quarterly update

Quarterly update Q2FY18-19 (July-September 2018)

Government finances

- India's April-October 2018 fiscal deficit stood at INR6.49 trillion (USD93.23 billion), or 103.9 per cent of the budgeted target for current fiscal year[2]
- Trade deficit worsened at USD13.98 billion in September 2018 vis-à-vis USD9.40 billion in September 2017.[3]

Inflation

- India's retail inflation or Consumer Price Index (CPI) stood at 3.77 per cent in the month of September 2018, compared with 3.69 per cent in August 2018[5]
- Wholesale inflation surged to 5.13 percent in September 2018, compared to 4.53 per cent in August 2018.[6]

Macro economy

- **Gross Domestic Product (GDP)** expanded at 7.1 per cent in Q2FY18-19 vis-à-vis 6.3 per cent in Q2FY17-18.[1]
  - Weak rupee, rising crude prices and tight liquidity conditions dented private consumption
  - Slowdown in growth in Q2FY 18-19 (vis-a-vis Q1 FY18-19) was largely driven by manufacturing, agriculture, construction and contraction in mining
  - However, investment activity remained robust with public spending, rising by 12.5 per cent in Q2FY18-19 vis-à-vis 10 per cent in Q1FY18-19.

Gross Fixed Capital Formation (GFCF)

- Growth in GFCF, a measure of investment, as a percentage of GDP, grew by 32.3 per cent in Q2FY18-19 compared to growth of 30.8 per cent in the corresponding quarter, last fiscal.[4]

Forex

- Foreign exchange reserves stood at USD400.52 billion as on 28 September 2018.[7]

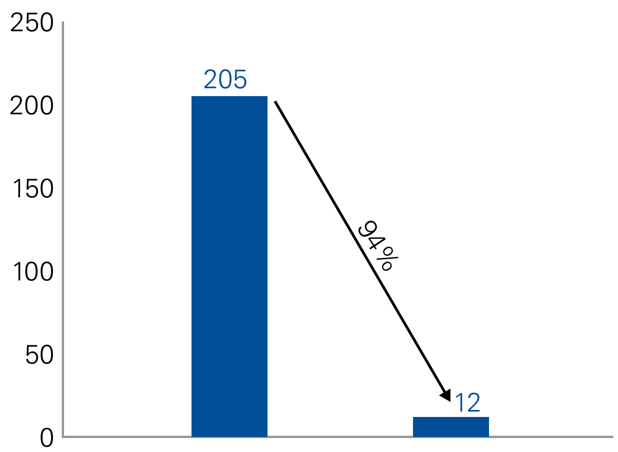
1. Press Note on Estimates of Gross Domestic Product for the Second Quarter (July-September) 2018-19; MOSPI, 30 November 2018
2. April-October fiscal deficit crosses full year target at INR6.49 trillion; Business Standard; 30 November, 2018
3. Key Economic Indicators; Office of Chief Economic Advisor, DIPP; updated as on 20 November 2018
4. Press Note on Estimates of Gross Domestic Product for the Second Quarter (July-September) 2018-19; MOSPI, 30 November 2018
5. CPI inflation rises marginally to 3.77% in September 2018; Business Standard; 12 October 2018
6. WPI inflation rises to 5.13% in September; The Economic Times; 15 October 2018
7. Weekly Statistical Supplement; Reserve Bank of India; 28 September 2018

Technology, Media and Telecom (TMT) convergence – Building ecosystems

Over the past couple of years, media consumption in India has evolved and expanded significantly, as traditional family TV-viewing is now complemented by individualistic entertainment through over-the-top (OTT) online platforms. This revolution of sorts has primarily been brought about by rapidly rising penetration and affordability of 4G services and smartphones. For instance, the average price of an entry-level 4G-capable device declined from INR3,000 (approx. USD 43.03) in Calendar Year 2016 (CY16) to INR1,500 (approx. USD21.52) in CY18, and average data costs (for GSM subscribers) fell from INR205 (approx. USD2.94) per GB in Q1FY16-17 to INR12 (approx. 0.17USD) per GB in Q1FY18-19.[1]

Sensing the seismic shift, technology, media and telecom players have all ventured into the OTT space with their own digital platforms — expanding their boundaries from traditional standalone businesses to include content creation and distribution for the online medium.

Avg. data cost per GB (INR)[1]



TMT convergence in play

Several players from technology, media, telecom and OTT video players are not only competing, but also collaborating with each other to leverage synergies and grow their share of pie in an increasingly competitive digital media space. Thus, traditional ways of making money may no longer work in the future, as business models are likely to converge eventually. Consequently, the boundaries between technology, media and telecom players are likely to blur sooner than we could imagine.

Blurring boundaries

Considering that videos are expected to account for 77 per cent of mobile data traffic by 2022, up from about 50 per cent in 2017, TMT players are focusing a majority of their efforts on building competitive digital platforms with a strong library of content.[2] The most significant factor driving online video consumption is the telecom industry, which has evolved significantly since the entry of Reliance Jio in September 2016.[3] Rapidly declining tariffs and an abundance of high-speed data revved up media consumption in an unprecedented manner. While this has led to the commoditisation of voice services and a gradual fall in the overall industry revenues, it has also benefitted the larger digital ecosystem by bringing in incremental users, increasing data usage per user and unfolding new monetisation avenues through increased data usage.

Looking to capitalise on their own digital infrastructure, telecom companies are now

1. The Indian Telecom Services Performance Indicators, April-June, 2016, Telecom Regulatory Authority of India, June 2016
2. India to have over 800 million smartphone users by 2022: Cisco study, Hindustan Times, 3 December 2018
3. Media ecosystems: The walls fall down - KPMG in India's Media and Entertainment report 2018; KPMG in India analysis; September 2018

focussing on content and its distribution to differentiate their offerings. They are formulating alliances with other OTT players to license content, which would act as an important tool for customer acquisition and retention. For instance, Airtel and Vodafone have partnered with Amazon Prime Video, offering its yearly subscription to their users for free to try and lock-in their customers for that period. In contrast, Reliance Jio is pursuing a two-pronged strategy of aggregating content as well as investing in original and exclusive content through alliances with media companies across the value chain.[4] In addition to online video content distribution, the telecom industry has forayed into a wide range of digital services, including news, music, digital storage and even payments.

On the other hand, traditional media houses which created and distributed video content via direct-to-home (DTH) and cable operators, have also established digital platforms to distribute the content they have developed over decades through the online medium. In addition, the digital medium allows media houses to feed off their TV content through catch-up TV and un-cut and behind-the-scenes footage.

Lastly, technology companies dominate online video consumption in India, and have also emerged as key players in distribution of news. YouTube and Facebook account for about two-thirds of the total online video consumption in India, and nearly four out of every five persons are consuming news over social media platforms in major Indian cities.[5] To capitalise on the opportunity, these players are investing heavily in building a strong presence in the market — not just in content distribution, but also original content creation.

Evolving business models

This convergence playing out in the TMT sector is expected to cause a transformation in the way businesses have been operating traditionally. While technology and telecom players provide a wider distribution network to media content creators, they also gain from increased opportunities for monetisation and differentiation through content offerings. It opens up a content production player to OTT-driven advertisement and subscription revenues, and enables technology and telecom companies to utilise their existing user bases to cross-sell digital offerings. Further, through own digital platforms, TMT businesses get direct access to consumer usage data, allowing for deeper insights into their behaviour and thus, opportunities for effective and targeted advertising.

Evidently, the business models of TMT companies are bound to revolve around their digital and mobile play. Content would continue to be seen as a differentiator to attract users and thus, for effective monetisation. The business models around standalone products from TMT companies such as social media, user generated content, TV-only productions, movies and voice and internet services may not remain entirely relevant in future. These players are evolving into large ecosystems of products and services, which may even be unrelated to one another — leading to a market wherein varied organisations would compete on their abilities to smoothly transition from traditional business models to the new, complex structures.

Girish Menon

Partner and Head,
Media and Entertainment,
KPMG in India

4. Media ecosystems: The walls fall down - KPMG in India's Media and Entertainment report 2018; KPMG in India analysis; September 2018
5. Media ecosystems: The walls fall down - KPMG in India's Media and Entertainment report 2018; KPMG in India analysis; September 2018

Spotlight

The increasing role of Artificial Intelligence (AI) and blockchain in transforming India's financial services sector

The Indian financial services sector is currently in the process of tackling some of its persisting challenges such as shrinking margins and rising Non-Performing Assets (NPAs). The sector is also ripe with opportunities due to the entry of non-traditional finance players, a shift in consumer preferences and rise in regulations and compliance obligations. At this juncture of challenges and opportunities, the emerging technology revolution could not have come at a better time. Two technologies which have been in the discussion for quite some time and have the potential to catapult the traditional financial services industry are – Artificial Intelligence (AI) and blockchain.

> ***AI*** *refers to the ability of machines to perform cognitive tasks such as thinking, perceiving, decision making and problem solving, which normally would have required human intelligence.*
>
> ***Blockchain****, on the other hand is the underlying technology of all cryptocurrencies, is a secure, transparent and decentralised database that drives efficiency and immutability and brings in unanimity in an organisation's data records.*

The next wave of innovation in banking and financial services sector is set to reshape the sector and bring in profound changes in the way business strategies shall be defined. The change would be largely driven by consolidation, collaboration and convergence with emerging technologies. Many of the technology elements have crossed the initial level of piloting, and the time is right to stitch the components and create frameworks for concurrent adoption of these technologies. This will enable financial institutions to redefine the business strategy, achieve a deeper level of personalisation and disintermediate the financial industry.

Following are some of the emerging trends which we foresee would drive this industry:

1. Open platforms and aggregated business model
2. Redefinition of the customer journeys across all the digital touchpoints
3. AI-driven business and operating models
4. Rise of financial superstores leveraging product and government platforms; and interoperable payment structures.

The financial services industry with the concurrent adoption of emerging technologies would move toward the concept of financial superstores, which would act as a one stop solution for all financial products and services. For setting these superstores, the three basic decisions which have to be considered are selection of the value chain segments to operate, product/service mix to be offered and onboarding the right product/service providers. The superstore would be supplemented with linkages to government platforms such as Goods and Services Tax Network (GSTN), Income Tax Return (ITR) and government-led e-marketplaces. These superstores will serve as an excellent source of authentic data and would be a progressive step in the direction of collaboration amongst financial institutions and government to develop open frameworks such as 'Public Credit Registry'.

Another interesting trend that has come across with respect to blockchain is the 'formation of consortiums'. Various banks are coming forth to develop blockchain consortiums to partake in the benefits of blockchain-based use cases.

The amalgamation of authentic financial information of an end user with technology will lead to assessment of behavioral patterns and guestimation of solutions, products, informative tips and so on to the end user. In the coming years with the increased maturity level of technologies, financial institutions would be capable of moving to models, which are highly personalised in nature, and with a capability to collaborate with multiple applications resulting in a seamless customer journey.

It is expected that with the advent of new digital technologies, the boundaries between financial institutions and fintech companies would diminish, and the ecosystem would move towards a more collaborative approach.

Manish Jain

Partner
Digital and Fintech,
Management Consulting,
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Market trends

Overcoming digital infrastructure challenges in India's healthcare ecosystem

Healthcare is one of the most essential elements defining a country's development. The health status of a country not only reflects the well-being of its citizens but is also an important contributor to its economic progress, given that a healthy population lives longer, and is more productive.

Healthcare in India has always posed big questions around accessibility and affordability. On one hand, the system has traditionally been financed largely through out-of-pocket payments and hence remains unaffordable for a large part of the population. Nearly 5 million people are pushed below the poverty line owing to this burdensome healthcare expenditure.[1]

On the other hand, a majority of the population has limited timely access to the right doctors, facilities, treatment and medication due to skewness of these facilities towards metros and large cities. A mere coverage of services is not sufficient to combat such a burden. Further, as the population pyramid inclines towards aged, more and more people would be in need of accessible and affordable medical and social care. This two-fold problem is poised to dominate over the next 20 years, unless the stakeholders take significant measures to address it now with bold measures in policy and implementation.

The proposed measures of the Union Budget are expected to drive the healthcare system towards the concept of universal healthcare. However, a structured approach and implementation is very crucial for the success of the scheme. Considering the coverage of the scheme, there is an absolute need to focus on areas such as building digital infrastructure, developing an efficient beneficiary identification mechanism, imbibing key learnings from successful global healthcare financing models and patient awareness on health insurance and utilisation of services.

To cope with massive volumes of data on citizens, records and payments, a robust digital infrastructure is of utmost importance. Since, there is a huge variation in technical capabilities across India's many states, the IT aspects of Ayushman Bharat will have to be managed carefully. In order to ease the implementation, it becomes essential to encourage the healthcare workforce to adopt technology and move towards digitisation. In choosing what would and won't be reimbursed, Ayushman Bharat will be making controversial life and death decisions that affect almost 500 million citizens. The only response to this is to rely on transparency and evidence. The scheme can evolve through learnings from successful universal healthcare schemes running across the globe. One such example includes the U.K.'s agency - National Institute for Health and Care Excellence (NICE), which determines what drugs and procedures will be funded by the tax payer based on clear thresholds of costs and benefits.

On the application side, improving healthcare infrastructure takes time and money. Fortunately, technologies have evolved and converged significantly over the last decade and shown promise to address these gaps in the Indian healthcare infrastructure. Just as mobile technology helped India vault its landline infrastructure problems and propelled it into the information technology age in the 1990s, technology enabled healthcare can provide cost-effective and ascendable solutions to India's healthcare problems and make it a global healthcare destination. Digitally enhanced healthcare, speciality operating models and disruptive technology-led healthcare services are already making strides in patient satisfaction and provide revenues in western economies.

1. Health spending pushed 55 million Indians into poverty in a year: Study; The Times of India; 13 June 2018

Nilaya Varma

Partner and Leader,
Markets Enablement,
KPMG in India

The key for Indian healthcare to taking an endearing leap will be to reimagine the prospect with emerging technologies while finding a balance between:

- Increasing care expectations of patients in a connected world and facelessness of technology-driven healthcare
- Constrained budgets and rising costs of healthcare
- Complexity of new technologies and their ease of deployment, integration and security
- Bringing transparency to the healthcare system.

KPMG in the news

Blockchain for lasting change: What every CEO should know before piloting its implementation | Opinion article in The Financial Express | 9 October 2018

"Any organisation considering blockchain implementation must assess the applicability to its specific business processes and systems, and cautiously select the right technology platform and partner to achieve desired outcomes."

- Akhil Bansal, Deputy CEO, KPMG in India

Should Indian CEOs rely on predictive analysis or historical data? | Opinion Article in Moneycontrol.com |12 November 2018

"What can be inferred from this is Indian CEOs, today still favour their experience and intuition over insights from data analytics. But they do acknowledge that decision-making is likely to be increasingly aided by data science in the foreseeable future. This can be attributed to the fact that 41 percent of them are, in fact, planning to increase the use of data analytics in decision-making over the next three years."

- Shalini Pillay, Office Managing Partner, Bangalore, KPMG in India

'India's growth story is best growth story' | Interview with Sakal Times | 17 November 2018

"I feel India's growth story is the best growth story in the world. India's economy is on the rise. We are seeing business and demand of services. In terms of sector wise growth, there is a lot of consumer spending and once consumer spending increases, there is growth in the finance industry. Infrastructure is one area which is expanding. The finance sector has issue of stressed assets but it will improve over the period of time."

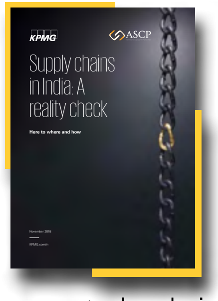
- Arun M. Kumar, Chairman and CEO, KPMG in India

Featured publications

Me, my life, my wallet

Drawing insights from nearly 25,000 consumers across Brazil, Canada, China, France, India, the UAE, the U.K. and the U.S., this year's survey (second edition of Me, my life, my wallet) also conducted ethnographic research interviews in each market. This year's research explores six key themes of critical importance to organisations and institutions around the world – trust, data, wealth and retirement, generational surfing, the customer of the future, and the B2B customer. It also provides an in-depth look at STEP (Social, Technological, Economic and Political) events influencing consumers of today, tomorrow and highlights emerging patterns of behaviour around the world.

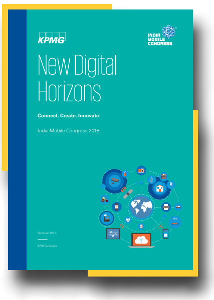
Click here for the report



Supply chains in India: A reality check

This survey report brings the story of supply chains in India by doing a reality check in terms of 'Here' to 'Where' and 'How'. The report also brings out our perspective on how to effectively build supply chains for a digital world.

Click here for the report



New Digital Horizons: Connect. Create. Innovate

The report traces the evolution of various network-enabled services over time, and helps understand the transformative role of telecom services in bringing a digital evolution.

The report takes cognisance of the fact that a new digital horizon is making its mark, and the telecom sector is playing an indispensable role in catapulting India's economy to forge ahead of the rest of the world. The prised trinity – regulators, academia and industry – is collaborating to connect India, create an ecosystem for ICT players to thrive and to contribute to the growth of digital India and innovate to bring in faster growth in technology adoption and network solutions.

Click here for the report

ENRich 2018 : New partnerships for new energy

The energy sector in India is witnessing massive disruption due to alternative sources of energy, the geo political scenario and technological advancements. In the light of these developments, the ninth edition of ENRich touched upon the following key themes including - Role of energy in India's inclusive growth; Emerging geopolitics and energy; Energy transitions, technology and innovation; India's energy security and sovereignty; Strategies for decarbonising India's energy sector; Digital transformation in the ENR sector; Energy and natural resources in new age mobility and Forging new partnerships for new energy.

Click here for the reports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