

FIBAC 2016



BANKING HORIZON: CLOUDS & SILVER LININGS



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GLOBAL SKYLINE

EVER-CHANGING CONTOURS

- Brexit (End or beginning?)
- US Rate Action
- Volatile Chinese Growth
- Euro Zone Banking System
- Hesitant Economic Recovery
- Ultra Accommodative Monetary Policies
- Negative Rate Of Interest

Will these bring rains or storm?

REGULATION

- **Regulation – More intrusive**
 - A daunting New Vocabulary (TLAC, CCB, LCR/ NSFR, SIFIs, Volcker Rule/ Living will & so on)
 - Risk weight for Sovereign Assets?
 - New standardized approach for Credit risk?
 - Penalties
 - Stress test – Capital
 - Nearer Home – IFRS
- **Impact on Banks profitability**

Do regulators need to worry about that?

TLAC: Total Loss Absorbency Capacity, CCB: Capital Conservation Buffer, LCR: Liquidity Coverage Ratio, NSFR: Net Stable Funding Ratio, SIFIs: Systemically Important Financial Intermediaries, IFRS: International Financial Reporting Standards

ASSET QUALITY REVIEW

STILL A WORK-IN-PROGRESS

- Stressed Assets
- Agenda for remaining 3Q of 2016-17
 - Provisioning need – Fresh & incremental – profitability impact
 - Crystallization of Non-Funded Exposures
 - Sitting stunned is no solution – Use tools judiciously – Overblown fears – Resolution can't be delegated
 - “Small Tickets” don't translate into “Small Attention”
 - Credit Migration – Cherry Picking

CREDIT

Churn in Credit Market

- Corporates – Reality check

- Corporate Leverage

Of a sample of 3,700 listed non-financial companies*

- 37% had interest coverage (IC) < 1
- 32% were chronically stressed (having IC < 1 for four or more of the past eight quarters)
- Many of them face refinancing risk in coming years**

At the same time – Review of Exposure limit – Move to market

Opportunity to rebalance portfolio

- Estimated 78% MSME source credit – self/informal channels. Riskier standalone – However, more diversified at portfolio level than large corporates
- Rising middle class/ Urbanization – Retail opportunities –

However, caution against – adverse selection/over lending – Need for accredited Credit Counselors

- Agriculture – Risk without enhanced credit absorption capacity – Land reforms – Investment – Technology – Insurance

COMPETITION

- New Institutions: Banks – SFB, PB
- New Competitors: Non-bank actors - P2P, Crowd-funding, PPI, TReDS
- Joint origination – Banks/NBFCs/MFIs – Merits a look
- New Customer & New Channels – Fintech
 - How are you preparing for the future – and it is not too distant
- **Customer Service - No more lip service**
 - Mis-selling – Establish suitability
 - Institutional might v/s individual fragility
 - Account No. Portability- No longer a remote possibility – UPI – a game changer
 - Account opening – Pleasure or Pain

SFB: Small Finance Banks, PB: Payment Banks, P2P: Peer to Peer, PPI: Prepaid Payment Instruments, TReDS: Trade Receivables Discounting System, UPI: Unified Payments Interface

OPERATIONAL

- **Cyber Security- Bane of technology**
 - Hits and near-misses
- **Frauds- History continues to repeat itself**
 - Import Remittance Scam, Fixed Deposit Frauds, LCs, Bill-discounting, BGs
- **KYC/AML**
 - Decline in Correspondent Banking arrangements
 - Life after PMJDY – Too many ring masters
 - Return on efforts & resources (Business model still evolving)
 - Promoting usage, Preventing misuse (Money Muling)
 - Ecosystem (Branch – BC balance)
- **Strong Central – processing and surveillance – 3 lines of defense – ignore at your peril**

BEYOND THE CURB

- Technology – a big enabler – a potent risk
- Digital payments – Digital currency – Distributed Ledger – Cloud Computing – and so on
- Journey – Big Data – Analytics – AI – Robotics
(Level of understanding and preparedness)
- Regulatory stance – still evolving – However as MAS puts it “Materiality & Proportionality” “Regulatory Sandbox”
- Back office technology sharing (HSBC | Morgan Stanley) – represents significant % of operating cost

THE LAST WORD

- “Finance exists to serve the real economy & society too. It is means to an end & not an end itself”
Reasons to become concerned if it overtakes Real Economy
or
Trading & fee generation becomes more important than lending
- G-30 Report – “The Board & the senior management need to make sure that the voices of the middle management & the echo from the bottom can be heard”

**SILVER LININGS ARE NOT
ELSEWHERE...THEY ARE AT
THE EDGE OF CLOUDS ONLY**

THANK YOU