

Governor's interaction during Mint BFSI Summit & Awards 2024 on January 11, 2024 (Edited Excerpts)

Moderator:

Thank you, Governor. Lots of interesting comments you made in your speech. I would like to start with what you said towards the end, where you said, in your interaction with some bank CEOs, they had some areas of concern and I remember at the time when the RBI had raised the risk weights on unsecured loans, you had called it a pre-emptive measure. So, are there any other areas which make you a little bit worried and where you will now direct your lens with more intensity?

Shaktikanta Das:

Thank you. At the moment, the Indian banking sector remains resilient and robust. Even if you look at the unsecured consumer loans and some segments of personal loans, the numbers that we have before us are not particularly alarming. The numbers are within reasonable limits. Even the NPA numbers are also within reasonable limits. They have not really significantly gone up. But what came to our notice were two or three points. One, as I mentioned in my address, there was a kind of exuberance which we saw that was building up and kind of a fear of missing out, what they call a FOMO approach also getting in. This was one opportunity which everybody thought they would capitalise on.

In this process, what was happening was that every institution, whether it is a bank or an NBFC, has a certain management bandwidth to appraise proposals, to diligently examine a loan application. Some of them have got model-based lending and there are models which automatically generate sanction letters.

We saw that banks and certain NBFCs, as per our supervisory assessment, did not have that kind of bandwidth of diligence, bandwidth of doing due diligence of the loan proposals to justify the kind of loan growth in these sectors that was seen. It was very clear that going forward this kind of growth would not be sustainable if it is not slightly moderated. So, we clearly smelt, saw and anticipated some problems ahead of us down the road. We, therefore, acted preemptively. Our approach is that, as I said in the last monetary policy, we do not wait for the house to catch fire and then act. We would like to see where the fire is likely to arise and act in time so that there is no fire in the house.

Moderator:

But, do you think that over the medium term, we need to revisit the whole personal lending framework in regulated entities?

Shaktikanta Das:

It is for the banks to do it. How to do appraisal is not something which the regulators should be telling the banks. Each bank and each NBFC have their

internal capabilities. Ultimately, they are collecting depositor money; they are lending from that money. It is their responsibility to do the appraisal. Our task, from time to time, as the coach or referee, whatever you call it, this is one area where perhaps you need to give a second look.

This model-based algorithm or model-based lending is one area where currently we are looking at. I have mentioned about it in one of the speeches about a month ago also. The robustness of models is something for the Bank Management, Board of Directors, that includes NBFCs also, the audit committees or the risk management committees of these financial entities to see how robust are the algorithms and how robust are the models. The ground realities keep on changing. Whether your model is falling behind the curve or it is in tune with the times and what are the possible risks which the models can create? That is one area which we are closely studying now. But again, our expectation is that the management of the banks, the boards of banks and NBFCs should themselves analyse and look at the possible riskiness or the possible gaps which are there in their model-based, algorithm-based lending, which can lead to a potential crisis.

Moderator:

In this area, you had listed the changes in the regulatory architecture and the strengthening of the architecture. What other changes can we expect going forward?

Shaktikanta Das:

I would not like to announce anything prematurely. Once we are ready with a particular analysis, we immediately issue it. In most of the cases, we issue it as a draft circular and then finalise it. In certain situations, it is not possible to issue a draft circular. We have to straight away issue the circular. It is situation-specific. I would not like to make an announcement prematurely unless we are fully convinced that this is something which needs regulatory intervention.

Moderator:

How are you dealing with these illegal lending apps, sir? You said the Government and the RBI are dealing with it. Are there any details which you can share?

Shaktikanta Das:

We have collected the list of apps from all lenders regulated by RBI viz., banks and NBFCs. The list has been furnished to Department of Financial Services and Ministry of Electronics and Information Technology, Government of India.

It is a long list of the digital lending apps (DLAs) which are engaged by either the the banks/NBFCs themselves or third-party service providers which are engaged by them (banks/NBFCs).

The responsibility is more for the law enforcement agencies to look at and identify illegal apps. RBI does not regulate these apps. Since, we regulate only banks and NBFCs, we have cast the responsibility on our regulated entities to see that the fair Code of Conduct and fair business practices are adopted by their third-party service providers. But the problem is with regard to the illegal lending apps.

Whenever we come across any further problem of illegal lending apps, we bring it to the notice of law enforcement agencies. There is an active engagement between the Reserve Bank, the concerned ministries, the Government of India and the law enforcement agencies. These coordination meetings are held regularly between these agencies to take appropriate measures against the illegal lending apps. There is growing awareness also among the people. We have been doing a lot of media campaigns and awareness programmes to sensitise the public not to fall prey to any sort of apparently attractive-looking loan or some other offerings.

Moderator:

Staying on the subject of FinTechs, you had said that after you have tightened regulations; PE money was still flowing into the industry. But the fact remains that regulations are tight and many FinTechs are still not in sight of profitability. Does that worry you?

Shaktikanta Das:

Somebody who is doing business, it is for him to decide on his investment and his tolerance level. Every business, whether it is a financial service sector company or it is a manufacturing company or any other real sector company, cannot expect to see profit from day one.

It is for those fintech companies to identify how much of initial loss or how many years of loss they can absorb. It is a question which they should be asking themselves. Is the model adopted by them risky or likely to create loss? If it is something which is loss-making, it is a question which they should answer themselves, whether they should travel down that lane and at what speed.

So far as we are concerned, I would like to say that the digital lending apps, we have not done anything. We have only put the responsibility on the bank management to ensure that fair practices are followed by their lending apps. We have also sensitised the banks through our direct interaction that they must also look at these lending algorithms and what you call model-based lending. The digital lending guidelines have been issued after wide consultation. I would like to say very clearly that the digital lending guidelines have been well accepted.

Look at the FLDG (First Loss Default Guarantee). When we issued the digital lending guidelines, there was a lot of clamour that we should also recognise FLDG. At that time, we clearly said that it was under examination and we would consider it. Then we had extensive deliberations and consultations with the actual players. The percentage, which we have prescribed, is something which came from their side, and we examined it, and we accepted it.

The fintech sector is growing. It will grow. The fintech sector, fintech lending sector, and digital lending sector will grow, but they need to grow in a sustainable manner and that is our emphasis.

Moderator:

On a related note, with the success of UPI, there are also some murmurs that it has become a kind of monopoly. There were some reports that the RBI is looking to revive the idea of a new umbrella entity kind of a competitor to this NPCI. Any thoughts on that?

Shaktikanta Das:

NPCI is entrusted with our entire payment system and within that, the UPI is now treated as a digital public infrastructure. It is open to all. Various apps like Google Pay, PhonePe, the BHIM app, and any private entity can sort of onboard into the UPI system and operate. So, it is an open kind of platform. They have to apply to NPCI and NPCI has to give them the necessary permission and onboard them. So, UPI has become a digital public infrastructure and UPI needs to grow. UPI has become an international model to be emulated by other countries. During G20 under India's presidency, there was wide appreciation and recognition of the fact that UPI is the leader in payment systems across the world. Both RBI and NPCI are in discussion with a number of countries to assist them in developing similar payment systems in their country and to integrate them with our UPI. Singapore has already done it. We have already signed an MoU with the Central Bank of the United Arab Emirates. There are a few other countries in our region with whom the discussions and the talks are at various advanced stages. We are ready from our side. Once they are ready, we would like to integrate.

UPI is now positioned in a place where it is a public infrastructure, and it has to make its presence felt. So, UPI needs to grow and that is the first aspect I will say. I would not look it as a monopoly because it is a kind of thing that anybody can come and play with that. It is based on the principle of public-private partnership. The success of UPI, in a large measure, also owes a lot to the private sector payment players who have onboarded into UPI. Companies have had a major role. We want to position UPI as a digital public infrastructure. It is an open platform. It is available to all and that should grow. It is the best system in the world and should become a world leader in facilitating similar payment

systems in other countries and also help in developing and improving the cross-border payments that we have.

Now, you are referring to the new umbrella entity. We got some proposals. There were many applications. Most of the proposals were just a replication of what the NPCI was already doing. What we were looking for are some new innovative methods, some new, some innovative, some value addition to our payment systems, which we did not see. Having said that, we will take an official view on this matter then we will make the necessary announcements as and when we take the official view.

Moderator:

Yesterday, the US Securities and Exchange Commission allowed exchange-traded funds tracking these cryptocurrencies. So, I would like to know, does this give some legitimacy to cryptocurrencies? Now, will this influence regulatory thinking across the world? I mean, what is your view?

Shaktikanta Das:

The US capital market regulators in that same announcement have also issued necessary cautionary advice and if I can say, warning to the investors to be careful, so pointed about the riskiness of the whole thing. The capital market regulator in the US is fully aware of the risks that it poses. Our position, my position and RBI's position on this whole crypto thing remains unchanged irrespective of who does what. Just because somebody is doing something, we are not here to emulate them. We will know that especially for emerging market economies and I would say the same would apply to advanced economies also. Traveling down that path will create huge risks which, going forward, will be very, very difficult to contain.

The question arises, why do you need to travel down that road? What is it that you get out of it? It is the speculative nature of that product which enables some people to make perhaps big money for some time, but the majority of people are not going to make big money for all time. In fact, the majority of people will encounter losses because it is an entirely speculative product. I do not wish to comment on what another regulator of another country has done. I would not like to comment on that because they know what is best for their country and accordingly, they have acted. But I would like to say two things. Firstly, they themselves have flagged the riskiness of the products and advised people to be very careful. Secondly, I would like to say that we are all familiar with the term, the tulip mania in the Netherlands which built up into a big asset bubble and then it collapsed. So, I do not think the world and in particular the emerging market economies can afford a crypto mania which will lead to similar outcomes.

Moderator:

Governor, can we take a couple of questions from the audience please? Please keep it short. That gentleman in the front.

Anirudh Gupta:

I am Anirudh Gupta. Sir, I have a question on the debt markets. Would the addition of ₹1.5 lakh limit which is there under the 80C provision of the Income Tax, under the debt funds deepen the debt markets in your view?

Shaktikanta Das:

It is a Government tax issue. The budget is expected in less than 20 days. It is not fair for me to comment on that in public.

Neerav:

Hi. I am Neerav. I have a question around CBDC. Recently, we crossed an important milestone in terms of daily transactions, i.e., 1 million odd transactions per day. How do you view the road map going ahead in terms of CBDC adoption? How is the use case panning out for wholesale CBDC?

Shaktikanta Das:

In wholesale, we started with the G-sec segment, both in the secondary market as well as in the primary auctions. Now we are moving towards money market operations, overnight call money markets. We are trying to ensure CBDC utilisation in that area. Slowly we will be adding new segments or new areas where CBDC operations we will do. Let us remember that it is a pilot project and we are in no great hurry because after all we are creating a new currency system, and we have to be very careful about the integrity and the safety of the CBDC that we are creating. So, we are being very careful. There is no target date as such. We are moving very cautiously, but with the learnings that we are getting, we are trying to utilise and further fine-tune our system. In the wholesale segment, we will be expanding its scope slowly and steadily.

Coming to retail, there have been many learnings. We are working on the possibility of programmability in CBDC, for example, the Government cash transfers to farmers or other segments. Whenever there is a direct benefit transfer or a cash transfer, you program it in such a manner that the CBDC which is transferred to the wallets of the beneficiary, is utilised only for that purpose, i.e., where the end use is clearly defined by the person who is sending the money. That is one area where we are working.

Recently we have made UPI and CBDC interoperable. You can use your UPI payment system, you can use the CBDC wallet also, and you can use the same QR code. Slowly, there are many learnings which are coming up. There are few countries in the world which are in the pilot mode and there is a lot of interest from other countries also in our CBDC system. So, CBDC in times to come is

the future currency system and in particular, CBDC will make cross-border payments much faster much more efficient and less expensive. CBDC, we are using the blockchain. We will go for the distributed ledger technology (DLT) method. So, to the critics of the RBI's view on cryptocurrency, let me say that we firmly believe that the technology of blockchain has its merits. It can be used and it is already being used by many companies even in India such as the logistics providers, maintenance of land records, the land registration records. There are huge opportunities available in blockchain technology per se. But the technology does not need a product called cryptocurrency to grow. We are using blockchain, for example, in CBDC. We will be using the DLT model also, but it is a huge opportunity and that is going to be the future currency system and we need to be there.

Neil Borate:

Sir, this is Neil Borate. I am a Deputy Editor at Mint. The mutual fund industry's overseas investment limit of US\$7 billion has not been raised by the RBI. All funds were stopped from investing fresh money overseas from February 1, 2022 and in fact, this limit of US\$7 billion was set in 2008 as far back as that. Now US\$7 billion is a tiny blip in our Forex reserves of more than US\$600 billion. So, what is the RBI's stance on this? Why should this not be raised?

Shaktikanta Das:

This request has been coming to us from the mutual fund industry from time to time. We have just come out of the pressure on our currency which we witnessed in the aftermath of the starting of the Ukraine war. From February 2022 onwards, the Rupee exchange rate was under a lot of pressure. Initially, there were a lot of outflows. So, it is a question of timing. We do not question the basis of their request. It is a question of the right time for us to do it. We have just come out of the stress on the exchange rate of the Rupee. We experienced huge outflows. Now things have stabilised, and the Rupee has remained very stable. Of course, some people read it wrongly and call it a stabilised arrangement. But it is not stabilised. It is market-determined. If somebody wishes to call it stabilised, so be it.

In the description of the Indian rupee as a stabilised arrangement, the fundamental strength of the Indian rupee is being missed out. They are, the strength of the macroeconomic fundamentals of the Indian economy, the resilience of the Indian financial system, the return of inflows into India, FPI inflows in particular. FDI inflows this year are less than what it was last year, but given that the global FDI volumes have gone down, in that, India's share is one of the bigger ones. So, these are the points which are being missed out. Our exchange rate system, our economy today is not what it was a few years ago. But that is beside the point.

Coming specifically to your question, I am not questioning the genuineness of their demand. It is a question of timing. When we feel confident that things are, it has to be stable on a durable basis. It is already stable. We will take the call at the right time.

Moderator:

One last thing I would like to ask. I do not know whether you would like to answer it. Do you expect the pre-election budget to be inflationary?

Shaktikanta Das:

No, it will not be. That is one thing I can tell you. I do not have any inside information about what the Government will do, what the Finance Ministry will do on the budget, what the Finance Minister will do on the budget. But, going by the past track record and going by the kind of measures the Government has been taking in recent months right after the inflation started rising and it hit 7.8% after the Ukraine war. The Government has been taking several supply-side measures. Particularly in recent weeks and months, a number of supply-side measures have been taken. So, what comes out very clearly is that the Government is very particular that inflation should be brought down and there is appreciation of the fact that supply-side measures can be done only by the Government.

The second thing is that our fiscal has not fueled inflation in India. Unlike in many other countries, where a huge amount of liquidity was injected into the system. Even pre-COVID, it was there. But during COVID, the kind of huge liquidity that was injected is still sitting out there and circulating somewhere. The liquidity injection also fueled inflation. In India, that did not happen. From the monetary policy side, the liquidity which we gave was for limited periods which have come back to us and we have also been pulling out liquidity. On the fiscal side, the fiscal support that the Government provided during the COVID times and thereafter was also targeted, and it was very calibrated and did not fuel inflation. I have talked about it at length outside. So, going by the past track record, there is no reason to believe that any announcements in the budget would be inflationary.

Moderator:

Thank you Sir. Ladies and gentlemen, Governor Shaktikanta Das.