Senior Management Conference-2007

Setting the Pace

by

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Respected Governor, Deputy Governors, my fellow Executive Directors, Regional Directors, Principals of Training Colleges and Heads of Central Office Departments. I heartily welcome you all to the Senior Management Conference-2007. As you must have noticed, this year's conference has been rechristened 'Senior Management Conference'. There is more to this change in the nomenclature than just simple semantics. The new title reflects the strategic shift in focus from just Regional Directors as target leaders to Heads of Central Office Departments also as part of seamless pool of versatile leaders. Besides, you must have also noticed that the Conference Theme this year is "Quest for Organizational Excellence: Issues, Problems and Solutions". It is no coincidence that the recent and still ongoing global financial market convulsion provides the perfect backdrop, and contextual topicality, to the conference theme. It would, therefore, be in order for me to briefly review the genesis and the egregious features of the still ongoing global financial market convulsion, which, ominously, is now reckoned to be, not weeks, months, but more than a year, away from playing itself out to its cataclysmic denouement.

2. To recapitulate, in the context of the broad theme of 'Managing Change' of the last year's conference, I had observed change is the only constant and uncertainty the only certainty. As the world becomes more

complex and almost seamlessly interlinked, the future will be less like the past and change will increasingly become non-linear, discontinuous and unpredictable. As linear thinking is utterly irrelevant in a non-linear world, we have to necessarily make intellectual leap from the linear to the non-linear, from the known to the unknown, from the terra firma to terra incognita. One year on, these words seem so uncannily relevant in the context of on-going global financial cataclysm. In his characteristic breezy and racy style, Satyajit Das, a world renowned expert in derivatives, describes the on-going financial syndrome as " 'too much' and 'too little' – too much liquidity, too much leverage, too much complex financial engineering, too little return for risk, too little understanding of the risks". In the words of Steven Rattner: "no exaggeration is required to pronounce unequivocally that money is available today in quantities, at prices and on terms never before seen in the 100-plus years since the US financial markets reached full flower". As a result of too much of global liquidity, there was so much of underpricing of risk (generic asset price inflation) that even junk bonds, euphemistically called high yield debt, had their spreads chased lower to such historically unseen levels that they became almost indistinguishable from investment grade debt! In a highly leveraged and interlinked global financial system, substantive changes in balance sheets of global banks and financial institutions began from the year 2000 onwards. Balance sheets of large global banks and investment banks came to hold illiquid assets such as private equity, leveraged loans, hedge funds investment, distressed debt, exotic derivatives, structured credit products like CDOs backed by sub-prime mortgages (NINJAs, No Income, No Jobs or Assets), off-balance sheet structures such as bank- sponsored conduits/structured investment vehicles (SIVs). The structured credit market supersized debt levels using techniques of staggering complexity, incomprehensible to all but a small group of practitioners. A discomforting feature of credit risk investing and trading was that the complexity and risk of structures was inversely related to the understanding of investors being sold it. Such luxuriant supply of global liquidity during the last 5 years, or so, created a wide-spread culture of complacency and laxity among leading global banks and financial institutions to a point where banks' "business model" became excessively risk-oriented and almost completely 'purchased liquidity centric'. This business model was, by its very nature and design, very aggressive and high risk as opposed to 'stored liquidity centric' model which is more conservative and low risk. This business model led to predatory lending generally and aggressive (cov-lites) leveraged loans commitments for LBOs to Private Equity firms and sponsoring of off-balance sheet Structured Investment Vehicles (SIVs)/conduits with explicit, or implicit, liquidity and credit lines commitments by banks, in particular. These bank-sponsored SIVs/conduits between them had a whopping outstanding Asset Backed Commercial Paper (ABCPs) (short term liabilities) worth US $ 1.6 trillion financing long term assets ! This business model was the replica of the long disgraced "3-6-3" S&Ls model under which the S&Ls managers borrowed short at 3%, lent long at 6% and were off to the golf course at 3 PM; only one is not sure if this time around also they went to golf course at 3 PM ! As a result, when the crunch came in the wake of massive and extensive defaults on sub-prime mortgages, off-balance sheet liquidity and credit lines were triggered with overwhelming liquidity crunch in the inter-bank money markets. Had banks been encouraged by western regulators and supervisors to be more conservative and rely on 'stored liquidity', the system-wide liquidity squeeze would have either been averted or considerably mitigated. It is thus evident that the recent credit market turbulence has thrown into sharp relief a 'strong connect' between 'liquidity risk' and 'opaque off-balance sheet exposures' of whatever kind. It is estimated that as against the total sub-prime-related write offs of US $ 28 bn., the final loss figure might eventually escalate to US $ 400 bn.! Indeed, the US financial system is not alone in the current mortifying embarrassment with the UK having had to contend with Northern Rock and Germany with IKB. In fact, Financial Times, London, in its Editorial wanted the UK Treasury Select Committee to ask 10 difficult questions of the FSA with regard to its supervisory failure. In Germany, it was left to Deutsche Bank CEO to tip BaFIN off on troubles at IKB.

3. The foregoing run-down should leave no one in doubt that at the end of the day it was clearly a broad spectrum and generic failure of an inertial regulatory and supervisory system. **Indeed, all this is most dramatically and graphically epitomized by what Mark Twain said 100 years ago : "It ain't what you don't know that gets you into trouble. It is what you know for sure that just ain't so!"** In refreshing contrast, nearer home, we have had remarkable financial stability, not fortuitously, but thanks to pre-emptively and pro-actively delivered prudential measures like increase in risk weights for exposures to commercial real estate, capital market, venture capital funds and systemically important non-deposit accepting NBFCs. **As a consequence, the Reserve Bank of India comes across as a Quintessential Model of Excellence, a veritable paragon of central banking, standing and walking tall !** It is, therefore, no surprise that Jim Walker, Global Head of Research at Credit Lyonnais eulogized RBI **saying that "India has the best central bank in Asia".** Also, Christopher Wood, CLSA Asia Pacific, describes, in Greed and Fear, Reserve Bank of India as a maverick central bank. **Christopher Wood**

reckons that RBI is the one central bank that has consciously targeted asset prices and credit growth in recent years and acted appropriately. The RBI also **stands out for its unfashionable concern about securitization excesses.** The fundamental point was that the Reserve Bank of India has pulled off a pre-emptive tightening cycle which is reflected in the latest and lowest WPI inflation rate of just 2.97%. And indeed all these kudos, accolades, encomia lavished on the RBI unquestionably, redound, as always, to the credit of our Respected Governor, Dr. Reddy's sagacious, prescient, consummate and astute leadership, who was, very admirably assisted by very able Deputy Governors.

4. But ironically such impeccable credentials to Excellence also at the same time set stretch targets for sustaining excellence in the future. In other words, having achieved excellence, we need excellent organization to sustain it and excellence of the organization derives from the excellence of its human resources. As indeed John Stuart Mill said, **"the worth of a State, in the long run, is the worth of individuals composing it!"** Besides, as someone has rightly observed **"it is only when you pursue perfection can you achieve excellence!"** But, in organizational context, there is invariably a symbiotic relationship between the organizational culture and the individual human resources; they mutually reinforce each other to make each other excellent. Thus, while in incessant quest, and pursuit, of excellence, **the individual** must have an attitude captured by the quotable quote of Spanish Philosopher Jose Ortega Gasset, viz. **"Excellence means when a man asks of himself more than others do!", the organizational culture** should epitomize the spirit of the following quote : **"If less than the best will do, why should anyone do**

the best?" When these both happen then the following timeless and eternal quote of Aristotle is exemplified viz., **"we are what we repeatedly do. Excellence, then, is not an act, but a habit!"** Vision and action are two inalienable and critical imperatives in making organizational excellence a reality because as James Broughton rightly said **"the only limits are those of vision, but then equally, the only limits on vision are those of action!"**

5. To bring you face to face with this truth, we have marshaled an impressive line up of redoubtable and distinguished guest speakers for this conference. They are none other than venerable Dr. APJ Abdul Kalam, Dr. E. Sreedharan, Dr. Devi Shetty and Ms. Chetna Gala Sinha. Living models of excellence themselves, having stridden their space and time like colossuses, these illustrious and industrious personalities are best suited to tell us how to pursue, achieve and sustain excellence!

6. All the same, and, in conclusion, to make doubly, and absolutely, certain that we don't trip on our stretch target of sustaining excellence, I would wish to recapitulate the profound wisdom of Shri Azim Premji when, in response to a question during the last conference of how to sustain motivation for excellence, he narrated the story of a **"shark among fish"**. To my mind, the shark that occurs to me is what Shri Anand Mahindra had to say, again during the same conference; **"you should fear, not failure but, success!!"** Constantly reminding ourselves of this will be the only real, veritable shark that will forever goad us to sustain excellence going forward ! I would now request respected Governor to make it convenient to inaugurate and declare open the Conference.

Thank you so very much.