The Board's Role in Navigating Transformation

(Special Address by Shri Swaminathan J, Deputy Governor, Reserve Bank of India at the Conference of Directors of Private Sector Banks in Mumbai on November 18, 2024)

Respected Governor, Reserve Bank of India, Deputy Governor Shri M Rajeshwar Rao, Chairmen, MD CEOs, Whole time directors and distinguished members of the Board of Private Sector Banks, colleagues from RBI, ladies, and gentlemen. A very good morning to all of you.

2. It is indeed an honour to speak before you today. Conferences such as these provide an invaluable platform for supervisors and banks to understand each other's perspectives.

3. We are navigating a new reality that is redefining the dynamics of the industry. The banking industry has witnessed several technology transformations in the past, however, the current transformation is unprecedented in its pace and scale, driven by advanced technologies like artificial intelligence and cloud computing. Unlike past shifts, which focused on digitizing existing processes and operational efficiency, today's transformation places the customer experience at the centre—offering instant, personalized services, not just at the branches, but through mobile apps and digital platforms.

4. This transformation, while promising and most welcome, brings significant risks for banks. Increased digital transactions expose banks to greater liquidity risks and cybersecurity threats, while the integration of new technologies heightens operational risks. Growing reliance on third-party providers adds dependency risks, and expanding

customer data collection demands stricter data privacy controls. Further, these rapid technological advancements require frequent updates coupled with the need for specialized talent. At the same time, customers' expectations have grown; they demand seamless service with minimal downtime. Moreover, today's customers are increasingly financially savvy, often willing to take some risk and experiment alternate avenues of investment as opposed to confining themselves to traditional bank deposits.

5. This is where the role of the Board of Directors becomes essential. Your leadership and governance are central to navigating these changes. In my speech today, I would like to discuss what it means to be part of a sound, transformative Board—one that can harness change effectively, address risks strategically, and reinforce resilience across the organization. Today I would like to touch upon seven aspects which I feel the Boards should keep in mind.

1. Fostering Innovation

6. In today's world, it is essential for banks to be innovative, and that goes beyond merely adopting new technologies. As Board members, your role is to foster a culture that actively encourages innovation that is aligned with the bank's long-term goals. As members of the Board you can guide the bank to innovate responsibly, ensuring that progress is steady, sustainable and compliant with relevant regulations. For this, the Board needs to ensure that the necessary infrastructure, skills, and risk management frameworks are in place to support these innovations. While at times management may present an optimistic view, it is the Board's duty to critically evaluate and question the

narrative provided so that it has a clear, accurate understanding of the organization’s true position and risks.

2. Business Model Risk Assessment

7. An effective business model is fundamental to a bank’s resilience and sustainable growth. There’s no single "golden rule" for what a successful model should look like; each bank must tailor its approach based on its specific risk appetite, market position, and strategic goals. While assessing the business model, it is essential to keep an eye on potential concentration risks. Banks often gravitate toward particular sectors, segments, or products that appear profitable or "safe" in the short term. However, over-reliance on any one area can lead to imbalanced exposures, making the bank vulnerable if conditions within that sector or product category suddenly change.

8. To ensure a sound business model and avoid excessive concentration, Boards might consider a few questions like – *Is our current model aligned with the bank’s long-term strategy, and does it adequately consider our risk appetite? Are we getting heavily concentrated in specific sectors, segments, or products, and if so, what mitigation measures/guardrails are in place? Are we following industry trends that might not align with our unique strengths and risk tolerance? What strategies can we employ to ensure a balanced and diversified approach without diluting our core expertise area?*

9. The Board’s oversight should focus on fostering a business model that balances growth with resilience, preparing for both the highs and lows of the economic cycle. In an

ever-evolving market, adaptability is crucial, and by keeping this consideration front and center, Boards can guide their banks toward sustainable, long-term success.

3. Heart of Governance: Risk Management and Data Integrity

10. Now, I would like to delve into an area where effective governance is absolutely essential which is risk management. In today's complex world, risks are no longer limited to just credit or market risks. As Board members, your ability to make informed decisions depends heavily on having access to accurate, timely, and comprehensive data. One of the common issues we see is that of Boards operating with outdated or incomplete data. Imagine trying to assess a critical situation with only part of the picture—it's risky and can lead to poor decision-making. So, what is the solution?

11. Boards should champion data integrity initiatives, ensuring that robust data systems are in place that provide a holistic view of risks across the bank. Real-time data can allow you to detect potential issues early, track trends in non-performing assets, or identify early warning signs in market or liquidity conditions. When it comes to risk, timely data isn't just a nice-to-have—it's an essential part of keeping your bank resilient.

12. Additionally, banks should think of stress testing as a tool that goes beyond regulatory requirements. These tests should be tailored to address a broad spectrum of risks, including operational, cyber, and liquidity risks. Regular, well-designed stress tests allow your bank to not only respond to but also anticipate potential crises.

4. Customer Centricity

13. This brings me to another important aspect - Customer centricity. We have spoken on this in detail in the past as well. Even at the cost of repeating, I would urge all of you to focus on customer service aspects of your bank, because this is one area that will attract substantial supervisory focus in the coming months and years.

14. High standards of customer service are not just expectations; they are obligations you owe to those who trust you with their money. Boards must ensure that the banks' service delivery embodies empathy and fairness, particularly toward vulnerable groups like senior citizens who often encounter hurdles in accessing banking services.

15. It is concerning that in many cases, customer grievance mechanisms, including the Internal Ombudsman structure, are treated more as a formality than as a robust, effective resource. The Internal Ombudsman mechanism should be more than words on paper; it should operate with the spirit and diligence necessary to resolve issues impartially and promptly.

16. Boards should work towards building customer-centric banks where every individual, regardless of age, income, or background, feels valued and respected. Customer-centric governance should be evident in every policy, process, and service touchpoint. More so when it comes to treating your customers fairly and in a transparent manner. As I have said before, this is an area where we are significantly focussing to enhance the customers' trust in the system and will not hesitate to act in case a supervisory intervention is considered necessary.

5. Talent retention and upgradation

17. As many of you know, the attrition rates[1] in the private sector banking industry have been significantly high. In FY24, the average attrition rate in the private sector bank group was around 25 per cent, with certain banks experiencing even higher levels over the past three years. Post our interactions on this matter last year with select entities, we do see an improvement but it is still a long way to go. The attrition numbers are not merely statistics; they are indicators of deeper challenges in the bank's approach to employee engagement and retention. If banks lose talented employees, especially at the junior and frontline levels, you are not just losing people— you are losing experience, customer relationships, and operational continuity. This may have a significant impact in the customer ownership and result in less than satisfactory experience at the frontline counters.

18. Therefore, reducing attrition is not just an HR function; it is a strategic imperative. As directors, I would urge you to explore and support initiatives that emphasize career development, mentorship programs, competitive benefits, and a supportive workplace culture that makes employees feel valued. By prioritizing employee stability, Boards are setting the foundation for long-term growth and building a bank that attracts and retains talent, and nurtures it for future leadership roles.

[1] RBI Internal Study on Attrition Rates in Private Sector Banks

6. Cybersecurity and Resilience in the Digital Age

19. Now, I would like to draw your attention to one of the biggest concerns of the digital era—cybersecurity. As we know, each digital channel, partnership, or customer-facing app introduces potential vulnerabilities. A robust IT and cybersecurity infrastructure is therefore fundamental to a bank's resilience. Cyber risks don't wait, so preparedness and real-time response capabilities are essential. Regular audits and simulated exercises can help assess vulnerabilities and improve resilience.

20. Operational resilience goes beyond just cyber risks. Think about your third-party dependencies and cloud-based services, too. A single vendor failure could disrupt critical functions. Each third-party partnership is an extension of your bank's operations, and each relationship carries its own set of risks. As Board members, you should demand transparency and due diligence to ensure that every vendor, especially ones that handle critical customer data, meet rigorous standards of security and reliability.

7. KYC, a matter of operational concern

21. Before I close, I would also like to touch upon an area that has now emerged as a major source of complaints. While Reserve Bank has comprehensively updated the Master Directions on KYC in full alignment with FATF and PMLA requirements, the way in which the guidelines are being implemented seems to be resulting in a number of accounts getting frozen, denying the customers access to their funds. Our root cause analysis indicates a set of issues, including high pendency at bank level in periodical updation of KYC details of the customers; lack of a proactive approach in assisting and obtaining the required customer documents; inadequate staff deployment in such critical

functions resulting in overcrowding or denial of service at branches; directing the customers to approach their ‘home branch’ for availing such services rather than being empathetic to customer needs by attending to them at a branch of their convenience; and failure to update the details in the system even after the customers have provided the required documents. It has also come to our notice that in certain cases the accounts that are meant to receive Direct Benefit Transfers from the Government have also been made inoperative or frozen, contrary to regulatory guidelines in the matter.

22. In such matters, it is essential for Boards to establish policies and require management to adopt standard operating procedures that are not only compliant with regulatory guidelines but also practical for effective implementation. I urge Board members, particularly the chair of the Customer Service Committee, to ensure that KYC guidelines are followed with both precision and empathy. The Reserve Bank will not hesitate to take regulatory or supervisory actions against entities that fail to address these concerns in a timely and considerate manner.

Closing Thoughts: Building a Resilient Future

23. While traditional governance responsibilities such as financial oversight and risk management will continue to remain top priorities, going ahead, Boards need to embrace technology, drive digital transformations, adopt customer centricity, and ensure ethical leadership. To ensure this, Boards are expected to possess a broad skill set, ranging from technological literacy to risk management expertise and a deep understanding of governance and stakeholder relations. By possessing the right mix of knowledge and

governance expertise, Boards will be able to guide banks towards long-term success in this rapidly evolving financial landscape.

24. The future strength of our banking sector rests on the governance practices we put in place today. A resilient bank is one that can anticipate change, manage risks, withstand crises and continuously adapt. Your role on the Board allows you to be a transformative force, shaping not only your bank's success but the trust it builds with its customers.

25. Thank You!

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