

**Work towards A World Class Banking System in India :
RBI Deputy Governor exhorts Banks**

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"The regulatory guidelines can at best represent the minimum requirements which the supervisor expects each bank to achieve. The sophisticated banks have to set their own standards for risk management depending on their risk appetite, the products, the portfolios and the markets in which they operate". This was stated by Smt.K.J. Udeshi, Deputy Governor, Reserve Bank of India. She was delivering the inaugural address at a Conference on Banking and Trade Finance. The Conference was organised by the International Chamber of Commerce (India) in New Delhi today.

Explaining the advantage of complying with risk management guidelines, the Deputy Governor stated that efficient risk management systems could create value for the banks by allowing them to make the best use of their capital, which in turn, would be a source of competitive advantage to the banks besides generating positive externalities for a sound and suitable banking system. "While the Reserve Bank would like banks to optimally manage their credit and market risks, it would like the banks to totally eliminate operational risks," she added. The Deputy Governor also urged banks that alongwith risk based internal audit, the banks must also put in place proper risk management architecture, strengthen the MIS and information technology, address HRD issues and set up compliance units. These steps, she added, would enable a smooth transition to the risk based supervision currently being implemented in India. The risk based supervision provided incentives to the banks for adoption of smooth sophisticated risk management techniques and this, together with sound corporate governance, should lead to the creation of a banking system that was world class, she hoped. The Reserve Bank, on its part, would continue to ensure financial stability, strengthen prudential norms to bring them on par with international best practices consistent with the specific needs of Indian banks as also progressively strengthen the supervisory framework, the Deputy Governor assured. The Deputy Governor further added that the focus of the Reserve Bank's policy initiatives was on streamlining banking operations in order to reduce transactions cost, infusing flexibility into the system, upgrading the risk management systems, enhancing the level of compliance by banks with accounting standards and operationalising consolidated accounting practices. "Providing the public with a financial system that they can trust is the most important focus of the Reserve Bank's policy initiatives", she underlined.

The Reserve Bank was also attempting to enforce certain discipline on market players with strong and self-governance standards transparent to investors and customers. A Standing Committee on Procedures and Performance Audit on Public Services provided by the Reserve Bank and Ad hoc Committee on Customer Services being set up by each bank are expected to bring about a significant improvement in customer service in the financial sector.

Addressing the critical issue, that is of receiving international concern, of money laundering, the Deputy Governor stated that the Reserve Bank had issued several guidelines to banks and non-banking financial companies to implement the "Know Your Customer" principle. The basic aim of these guidelines was to prevent banks from being unwittingly used as the channel of funds derived from criminal activity or financing terrorism. However, as financial transactions grew more complex, it became more difficult for banks to maintain a

customer profile, she pointed out and added that the challenge for the banks was to ensure that they knew their customers without hindering the smooth flow of financial transactions.

The Deputy Governor highlighted the several measures that the Reserve Bank had taken to ensure adequate flow of credit towards export related activities including introduction of a transparent reporting system for export credit interest rates. She, however, pointed out that finance can only act as a facilitator. In the context of globalisation, the demand for the product and its competitiveness on quality considerations are two important conditions to be satisfied. According to the Deputy Governor, the Reserve Bank had provided the enabling conditions for promotion of trade and investment, both domestic and international, by ensuring adequate liquidity, a competitive interest rate regime, measures to encourage decentralised decision making and ease procedures in the credit delivery systems and most importantly, financial stability in the midst of a world economy beset by uncertainty and recessionary trends. It was now necessary for market participants to have enough confidence to make investment decisions, she added.

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