



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi

Website : www.rbi.org.in

इ-मेल email: helpdoc@rbi.org.in

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001

DEPARTMENT OF COMMUNICATION, Central Office, S.B.S.Marg, Mumbai-400001

फोन/Phone: 91 22 2266 0502 फैक्स/Fax: 91 22 22660358

August 16, 2016

Interesting, Profitable, and Challenging: Banking in India Today

"The current times are interesting, profitable, and challenging for the financial sector. Interesting because the level of competition is going to increase manifold, both for customers as well as for talent, transforming even the sleepest areas in financial services; profitable because new technologies, information, and new techniques will open up vastly new business opportunities and customers; and challenging because competition and novelty constitute a particularly volatile mix in terms of risk," Dr. Raghuram G. Rajan, Governor, Reserve Bank of India said this in his [speech to FICCI-IBA Annual Global Banking Conference](#), held in Mumbai today.

Stating that India will have enormous project financing needs in the coming days, the Governor hoped that banks will not be irrationally exuberant in lending this time. According to him, first the focus should move more to improving the operational efficiency of stressed assets, and creating the right capital structure so that all stakeholders could benefit. Toward this, he suggested simultaneous action on two fronts - a creative search for new management teams, including the possible use of public sector firms or private sector agents, as also well-structured performance incentives such as bonuses for meeting cash flow/profit benchmarks and stock options.

To lower the risks further, he suggested bringing in more in-house expertise to project evaluation, including understanding demand projections for the project's output, likely competition, and the expertise and reliability of the promoter. He also suggested that real risks should be mitigated where possible, and where not, shared contractually between the promoter and financiers, or a transparent arbitration system agreed upon. He also said that the financiers should put in a robust system of project monitoring and appraisal, including where possible, careful real-time monitoring of costs by using information technology (IT). "It only required a stronger marriage between information technology and financial engineering with an important role for practical industry knowledge and incentive design," he said. An incentive structure for bankers so that they structure and monitor loans carefully, and get significant rewards, including promotions, if loans worked out was necessary according to him.

Further, authorities like the central bank and the Government should, over the medium term, reduce the differences in regulatory treatment between public sector banks and private sector banks, and more generally, between banks and other financial institutions to encourage effective competition among them. This can be achieved by paying for delivery of mandates and targeting them better towards the truly underserved as also withdrawing preferential treatment, to the extent feasible, at commensurate pace.

A parallel task for public sector banks was to improve the governance and management. He suggested that as the Bank Board Bureau (BBB) gains experience in appointment process, the final decision relating to appointments of executives and of non-official directors on bank boards should be left to it; executive appointments ultimately devolving on bank boards once they get professionalised. It was also important, in his view, to streamline and reduce the overlaps between the jurisdictions of the authorities, and specify clear triggers or situations where one authority's oversight is invoked and move much of the governance to the bank's board.

To fill out the ranks of middle management that have thinned out by retirements, banks should look for talent with expertise in project evaluation, risk management, and IT, including cyber security. Solutions like persuading courts to allow some campus hire, making bank entrance exams much less onerous to take, with applications, tests, and results, wherever possible, available quickly and online and to have more freedom to hire locally, and pay wages commensurate with the local labour market should be considered. Solutions like increased emphasis on performance evaluation, including identifying low performers with the intent of helping them improve, rewards like Employee Stock Ownership Plans (ESOPs) that give all employees a stake in the future of the bank might also be helpful. "None of these changes are easy, but they are also not impossible," he emphasised.

Press Release : 2016-2017/409

Alpana Killawala
Principal Adviser