

FICCI-IBA Conference on Global Banking: Paradigm Shift



(L-R) Namon Narain Meena, M V Nair, O P Bhatt

Federation of Indian Chambers of Commerce and Industry (FICCI) and Indian Banks' Association (IBA) jointly organised a three-day conference on 'Global Banking: Paradigm Shift' at Hotel Grand Hyatt, Mumbai on 8th through 10th September 2009. The theme of the conference this year was 'Unlocking the Potential Amidst Global Turmoil'.

Welcoming the delegates Harsh C Mariwala, vice president, FICCI stated that the recent global turmoil has shaken everyone and that the crisis calls for response in both short and medium-term measures. 'In India, Reserve Bank of India (RBI) has taken lot of measures in the short-term to bring stability to the economy,' he observed and added that 'in the long-term, maximising well-being of all the stakeholders is to be seen'. In his opening remarks, M V Nair, chairman, IBA and chairman and managing director (CMD) of Union Bank of India declared that the subprime crisis has given a lot of opportunities to India. 'India's domestic demand is very good and the present government is committed to carry on the reform process,' said Nair supporting his view. O P Bhatt, chairman, State Bank of India and deputy chairman of IBA observed in his theme presentation that 'we need good leadership to remove poverty and hunger from the face of earth'. 'Consumption driven growth has become a monster,' declared Bhatt and suggested that 'measure of growth should be closer to nature and life, and ethical incentives should be encouraged'. He also expressed the opinion that the size of Indian banks is not good enough. Unless the size of banks is increased they cannot serve growth.

In his inaugural address, Hon'ble Minister of State for Finance (E&FS) Namon Narain Meena noted that 'the global imbalances, financial mismanagement, misalignment

of incentives are causes for recent global turmoil'. 'The effect on India has been very limited due to the efforts of government and RBI,' he observed and added that 'the government has come out with fiscal stimulus and RBI had brought out various liquidity measures'. To further strengthen the reforms, the government would introduce the Insurance Amendment Bill and Pension Fund Reforms, he announced.

Post-inaugural session was a panel discussion on 'Tackling the Crisis: Unlocking Potential Amidst Turmoil' chaired by M V Nair and moderated by Dr Janmejaya Sinha of Boston Consulting Group. 'Recovery is modest but India is sitting on a world of opportunities,' said M V Nair summing up the discussion. Know your customer, customer's business and his business risk, and improve on customer centric business, were other insights thrown up by the panel. 'Convert the subprime into sublime,' was the final consensus.

The next panel discussion on 'Strengthening Financial Regulation and Supervision' was chaired by Ms Usha Thorat, deputy governor, RBI. 'There is soul searching still going on in western economies over what went wrong,' stated Ms Thorat and asserted that 'In India, the financial sector has been subservient to the real sector. Hence, the impact of crisis is lesser'. India already had some of the regulations being proposed now globally, she declared and concluded that for India, being late has had benefit of hindsight. The last panel discussion of the day was on 'The New Risk Management Regime' chaired by Aditya Puri, deputy chairman, IBA and MD, HDFC Bank. The panel delved on the causes of the subprime crisis, and agreed that all exposures should be by choice and not by chance. The consensus was that the government should bring all the sectors under some regulators.

On the second day, Dr Atiur Rahman, governor, Bangladesh Bank stressed in his special address on regional integration of banking services in South Asia, using the model of European Union and SAARC. 'Developing countries and more particularly South Asian financial industry had reasonably weathered the latest global financial crisis,' he said and went on to add that the region needs to develop innovative processes in its financial architecture for equitable growth and development of the hitherto deprived sections of the society.

In the panel discussion on 'Opportunity Amidst the Turmoil' that followed, Dr K C Chakrabarty, deputy



Nandan Nilekani

governor, RBI, who chaired the panel, stated that despite the recent turmoil in the global financial industry, there are opportunities for growth and development. But only those institutions that have inner strength and liquidity will be able to utilise the potential available in hitherto unpenetrated market. Some of the interesting points that came up during the discussion were: rural consumers need products and services that can fit into the prevailing rural environs; while the rich buy brands for vanity the poor do so for security; only 34 percent of the country's population is covered by formal banking system and the resultant gap provides a huge potential for growth and development; and the need to fully exploit the potential of cooperative banks. Dr Chakrabarty summed up the session with the observation that we cannot have financial inclusion without technology and financial institutions need to innovate to adopt technology. The next panel discussion was on 'Aligning Technology with Banking System' chaired by S A Bhat, CMD, Indian Overseas Bank. The discussion concluded with a summary remark from the chair that while there are several challenges, there is a need to shift from transaction oriented technology to an information management oriented approach in aligning technology with the banking system.

One of the major highlights of the conference was the keynote address by Nandan Nilekani, chairman, Unique Identification Authority of India (UIDAI). 'UID is one of the ambitious projects of the government of India,' declared Nilekani, and started with an overview of the UID project. He informed that the UIDAI shall only be issuing numbers and not cards. Based on a combination of demographic and biometric data, a unique ID shall be generated for every registrant. It will just be a master database with no transactions or profiling. The process will only confirm the identity of a person and shall not guarantee any rights or entitlements. It will be a demand driven voluntary system with the motto 'enroll once, identity for life'. Nilekani informed that he expects banks to be key partners and collaborators in the process. 'Banks are not just to play the role of a registrar but also provide

authentication services. There will be several touch-points and banks are envisaged to be key partners in the process. Some of the important areas of collaboration will be financial inclusion and National Rural Employment Guarantee Scheme (NREGS) and is expected to improve pro-poor delivery system,' said Nilekani. It is a complex project with execution as one of the key risk area, he said and informed that issuance of UID numbers shall commence from late 2010 and about 60 crore people will enroll in the first 4 years. UID standards for interoperability would be published in six months' time and accordingly banks are expected to modify their own systems to suit UID standards. M V Nair thanked him and assured that IBA would explore the possibility of leveraging the technology available to National Payment Corporation of India (NPCI) for helping the UID project. A dedicated committee would be set up in IBA including NPCI, Institute for Development & Research in Banking (IDRBT) and member banks to facilitate the project, he announced.

The panel discussion on 'The Giant Promise of Modern Credit Infrastructure' chaired by M D Mallya, CMD, Bank of Baroda followed. Initiating the discussions, Mallya set the tone by drawing attention of the panelists and audience to credit portfolio management, expected expansion in credit portfolio in near future, internal and external credit rating mechanisms, market intelligence systems, recovery aspects, and asset reconstruction companies. The panel concluded that quality of assets will continue to be a huge challenge, and that there are gaps in skills in relation to credit portfolio requirements. Growth and quality could many times be opposing obligations, which can be handled only by a robust credit infrastructure. Such an infrastructure would include integration of technology with operational systems, rating agencies, risk management technologies, speed and simplicity of legal systems, quality and accessibility of support systems such as audit, legal, and valuers; and risk mitigation across the credit lifecycle. 'Common sense is not so common, especially in credit and risk assessment,' was the unanimous observation.

Another major highlight of the conference was the special address by G C Chaturvedi, additional secretary, department of banking and insurance, government of India on 'HR Challenges for Bankers in a Changing Environment'. 'Leadership is a major issue in banking sector,' observed Chaturvedi. To address this, the officers have to be groomed at the early stage itself by giving all-round exposure. 'There is a need to move towards global standards in the HR area and this needs to start from the top,' he advised. While technology change and process change are relatively easier, HR changes are the most challenging one, he concluded. Last panel discussion of the day was on 'Growing Credit Amidst a Slowdown: Maintaining a Fine Balance' which was moderated by



Dr D Subbarao

A C Mahajan, CMD, Canara Bank. Initiating the discussions, Mahajan observed that Indian banking industry cannot rest on the fact that the turmoil in the international financial markets did not impact them significantly. 'They need to be on guard to serve the financial needs of the market and maintain a healthy asset quality,' he advised. Benign rates of interest versus inflation, risk-adjusted return on capital, and exploitation of MSMEs by big industry, were some of the issues that were thrown up during the discussion.

The third day began with a panel discussion on 'Committee on Financial Sector Assessment (CFSA) Report' chaired by M S Verma, chairman, International Asset Reconstruction Company. Fine-tuning of risk management, review of the existing legal framework, a common law for all kinds of banks, co-ordination between different regulators essential to remove regulatory arbitrage, ownership issues, role of foreign banks, mergers and acquisitions, and securitisation laws were considered critical to facilitate implementation of CFSA recommendations. In his concluding remarks, Verma stated that 'inclusion and growth shall remain the key priorities for the banking industry'.

The next panel on 'Future of Investment Banking and Structured Financing' was moderated by Ms Latha Venkatesh, banking editor, CNBC TV18. Regulators should not overreact and kill the markets; all sophisticated products to reach the rural and semi-urban places, there is a need to raise capital if the financial industry is to carry out any meaningful investment banking activity; were some of the key observations made by the panel. There is a lack of depth in the Indian debt market, and banks have hardly any role in mergers and acquisitions were other observations.

The final panel discussion of the conference on 'Nurturing HR for Opportunities Ahead' was moderated by Dr K Ramakrishnan, chief executive, IBA. Initiating the discussion, Dr Ramakrishnan observed that 'the average age of an employee in a public sector bank is 47.2 years, whereas that in private sector banks is 30 years'. 'This gives

rise to several issues such as adaptability, incentives, talent retention, etc,' he explained. The panel observed that the induction of manpower/talent has not kept pace with the growth in the industry, resulting in a talent gap. Recruitments made in the period immediately following bank nationalisation shall all be retiring now giving rise to recruitment and induction of new staff. Also, VRS offered to PSB employees during the period 2001-02 has created a significant gap that is yet to be filled. It was also felt that in the context of the induction of technology, there is a need for re-skilling and redeployment of existing staff. It was also pointed out that it is wrong to believe that good talent is available only in business schools. Summing up the discussion, Dr Ramakrishnan advised that banks need to draw up retention plans comprising of career planning, job enrichment and two track promotion to meet the growing needs and challenges.

While inviting Dr D Subbarao, governor, RBI to deliver the valedictory address, M V Nair presented a summary of the key points emerging from various sessions. He also made a special mention of the address delivered by the governor of Bangladesh Bank, on UID project by Nandan Nilekani and the special address on HR Challenges by G C Chaturvedi. Dr Subbarao began his valedictory address with a brief recap of the tumultuous events of the past 12 months. He recalled that it was the breakdown of trust following the collapse of the Lehman Brothers that caused the turmoil in advanced economies and this soon spread in two dimensions – from the financial sector to the real sector and a geographic spread from advanced economies to emerging economies quickly engulfing the entire world. 'Exclusive focus on price stability, failure to prevent asset bubbles, and lightness of regulation,' explained Subbarao, were the major causes. 'In the aftermath of the turmoil, there was a coordinated and concerned global action towards financial stability,' he stated. He recounted the actions initiated globally and specifically in India in this regard. In contrast to the minimalist formula of 'single objective, single instrument', conduct of monetary policy by the RBI has been guided by multiple objectives and multiple instruments, he declared. 'In general, our three main objectives have been price stability, growth and financial stability, with the inter se priority among the objectives shifting from time to time depending on the macroeconomic circumstances,' he explained. On splitting the dual functions of regulatory and monetary, Subbarao maintained that the global financial crisis has clearly weakened this argument. Some of the advanced countries where regulation and supervision are with an agency other than the central bank are themselves revisiting their regulatory structures and contemplating some unification.

The conference ended with a vote of thanks given by Omkar Singh, ex-chairman of FICCI.