

FICCI-IBA Conference on Global B@nking: Paradigm Shift



L to R - Dr K Ramakrishnan, Ms Chanda Kochhar, T Narayanasami, Y K Modi, O P Bhatt, Sanjay Nayar and Joydeep Sengupta

Federation of Indian Chambers of Commerce and Industry (FICCI) and Indian Banks' Association (IBA) jointly organised a three-day conference on 'Global B@nking: Paradigm Shift' at Hotel Grand Hyatt, Mumbai on 6th, 7th, and 8th November 2008. In its seventh edition this year the theme of the annual conference was 'Navigating Successfully in an Uncertain World'.

Dr K Ramakrishnan, chief executive, IBA, moderator of the opening session, started the proceedings by calling Y K Modi, past president, FICCI; T S Narayanasami, chairman, IBA and chairman and managing director (CMD), Bank of India; O P Bhatt, chairman, FICCI's Banking and Financial Institutions Committee, and chairman State Bank of India; Sanjay Nayar, chief executive officer (CEO), South Asia, Citi; and Chanda Kochhar, joint managing director and chief financial officer, ICICI Bank to the dais.

In his welcome address, Modi observed that 'financial innovations of the yesteryears are no longer valid'. Though the Indian banking system is relatively less impacted by the current global financial crisis, he said, it is facing pressure on its asset quality due to slowing down of economy and

increased cost of funding. Indian banks are well capitalised, and also their exposure to crisis is a very small percentage of their assets. But, Modi cautioned that the ripple effect of the crisis has led to unavailability of funding for business and industry at the tight cost.

In his well-crafted opening remarks, Narayanasami stressed the fact that during these times 'uncertainty is blatant' and the 'solution is difficult'. He formally released the knowledge paper in the form of a survey report prepared by McKinsey & Co, the knowledge partners of the conference. The report titled 'Towards Superior Risk Management in Indian Banking' runs into 124 pages, and was heavily quoted from during subsequent sessions.

O P Bhatt had to present the conference theme in absence of Montek Singh Ahluwalia deputy chairman, Planning Commission, who could not make it to the conference on account of sudden exigencies. 'I will try to be provocative,' said Bhatt, 'to create many openings for debate'. He began with an analysis of the causes of the present financial turmoil. Massive leveraging, financial innovations racing ahead of real world, and greed were the three major reasons for the present crisis, he opined. Quoting from a

book by George Soros, Bhatt stated that the present crisis was a handiwork of 25 years of mismanagement. 'Financial market participants had wrongly and imperfectly believed that markets tend to equilibrium,' observed Bhatt. It is not so, since perfect competition and information are not present in these markets. Theory of rational expectations does not work in financial markets, he explained.

What are the likely issues arising out of this crisis? 'Financial risk management will become a value driver,' said Bhatt, while predicting that 'stressed assets will rise'. Banks will need to more effectively manage reputation, counterparty, and concentration risks. Banks will need more capital to sustain increasing credit demand, and also need to grow to global size. Consolidation, both in banking sector and other sector is the need of the hour to acquire scale which alone can help Indian economy to weather this storm.

Chanda Kochhar supplemented the list of causes enumerated by Bhatt. 'Declining quality of standards in lending and increase in incentives,' were responsible for the root of this crisis, she stated, while agreeing that high leverage was the main culprit for its growing out of proportion. Financial innovations like securitisation and credit derivatives were also to be blamed, she said. Also, she observed that 'while lending, value of underlying assets and not incomes were relied upon,' which is not a sound lending practice. In India, we consciously lend against incomes and not just against the value of securities, she emphasised. We also have much lower leveraged levels as compared to developed world, she maintained, giving full credit to the Reserve Bank of India (RBI) for effectively regulating Indian banks.

Talking about the impact of the crisis, Kochhar said that the crisis has precipitated complete risk aversion in global financial markets, which in turn has resulted in global resources drying up. The impact for Indian corporates has been complete unavailability of trade credit from international buyers and suppliers. 'It was a large amount,' said Kochhar and observed that the shortfall has to be met now by internal resources only. 'Capital market has dried up, there is a serious liquidity crunch,' said Kochhar, and added that 'liquidity is needed to kick start the growth cycle'. She agreed with Bhatt that risk management will become very important in this scenario.

Uncertainty is not over, it will continue,' predicted Sanjay Nayar. 'We can expect a lot of changes in the regulatory framework both in Europe and in the US.' Asia is better off, said Nayar, and added that this presents an opportunity for Indian banking sector. 'The demand is there, there are only the supply issues waiting to be addressed,' he maintained. Liability products have to take the centre stage

along with risk management. Asset liability mismatches and pricing risk are the two major problems that need to be addressed, said Nayar. 'We need long-term structural liquidity,' he said, and that 'NRI funds have to canvassed to get over foreign exchange requirements'.

Various issues under the theme were debated at length during the three days. International speakers and panellists included Dominic Barton, director, McKinsey & Co; Douglas Feagin, head, financial institutions group, Asia, Goldman Sachs; Dr Robert Kuhn, senior advisor, Citi; Y Googoolye, first deputy governor, Bank of Mauritius; W A Wijewardena, deputy governor, Central Bank of Sri Lanka; Sally Scutt, managing director, International Banking Federation (IBFed), and deputy chief executive, British Bankers' Association. Barbara Ridpath, chief executive, International Centre for Financial Regulation (ICFR) replaced S K Bhattacharya, managing director and chief credit & risk officer, State Bank of India to chair the panel discussion on 'Embedding a Risk Culture and Governance in Banks'. She was also on the panels for discussion on 'Compliance Compulsions: IFRS and Fair Value Accounting' and 'Towards a Market-Driven Financial System: Striking the Balance between Regulation and Innovation'. Dr Ramakrishnan, who moderated the latter panel discussion, observed that 'there has been unbridled asset expansion at the cost of asset quality', but maintained that 'financial innovations have benefited the economy'. He mentioned market integrity, investor protection and financial stability as the key areas that regulators need to manage. Sally Scutt observed that 'independent investment banking model is dead, and so is the originate and distribute model for credit'. 'We need efficient regulation and not more regulation,' she concluded. Ridpath was delightfully candid and forthright. In tough times like these, financial innovation looks like an evil, she said. She also drew attention of the audience to the fact that there is an inherent paradox between innovation and regulation, since some of the innovations are to take benefit of the regulatory arbitrage.

Domestic speakers and panellists included G Gopalakrishna, executive director, RBI; Meera Sanyal, country executive, ABN Amro Bank India and chairperson, ABN AMRO Central Enterprise Services (ACES); M D Mallya, CMD, Bank of Baroda; S Khasnobis, MD & CEO, Arcil; Roopa Kudva, MD & CEO, Crisil; Dr Subir Gokarn, chief economist, Standard & Poor's Asia Pacific; Neeraj Swaroop, regional chief executive India & South Asia, Standard Chartered Bank; and Rana Kapoor, MD & CEO, Yes Bank.

The conference concluded with CEO panel discussion on 'Navigating Financial Institutions and Decision-Making in an Uncertain World'.