

Emerging Challenges: Indian Financial System

Indian Banks' Association (IBA) and Indian Merchants' Chamber (IMC) jointly organised an international conference on 'Emerging Challenges to the Indian Financial System'. This was held on April 27, 2007 at Hotel Hilton Towers, Mumbai.

Niraj Bajaj, president, IMC, felicitated the chief guest, Dr YV Reddy, governor, Reserve Bank of India (RBI), and the guest of honour, OP Bhatt, chairman, State Bank of India (SBI). Nayan Patel, immediate past president, IMC, while presenting the theme of the conference said, 'While deregulation has opened up new vistas for the financial organizations to augment revenues, it has also entailed greater competition and consequently greater risks. This is a challenge that the Indian financial system is gearing itself to meet.'

Dr Reddy declared in his inaugural address at the conference that, 'the RBI is keen to ensure that the growth of India's financial and external sectors is in tandem with the growth of its real sector'. Macro-economic parameters of the Indian economy are sound. In the past two years, the Indian economy grew at an average 8.5%, while recording an average inflation rate of about 5%. 'These were in spite of the unprecedented rise in oil price and steep shortfall in food production,' observed Dr Reddy. He said that during this period, corporate and individual savings also has a steep rise. 'About 98% of investments made in the country came from domestic savings. Undoubtedly, the Indian economy has entered a self-accelerating phase,' declared Dr Reddy. Unlike the global currency imbalances caused by monetary policies of USA, Japan and China, the sound policies followed by India were contributing to the global currency balance, he said.

In his keynote address, OP Bhatt said that the Indian financial sector's challenges and opportunities were a direct offshoot of a dynamic growth of the Indian economy. 'Powerful forces seem to be at work in India, throwing up major challenges to the financial sector. For instance, with one click of the mouse now millions of dollars can come in or go out, all posing challenges to the banking sector,' noted Bhatt. Deregulation had hurt the public sector banks most, as they had to make a painful transition from the benign government-controlled financial environment to the rough and tumble of the open market. Also, the expectations of Indian consumers, who have seen the world, have increased and they are demanding the best services and financial products.

Sessions were chaired by Shyamala Gopinath and Usha



Dr YV Reddy, Governor, Reserve Bank of India

Thorat, both deputy governors of RBI; TS Bhattacharya, MD, SBI and Dominic Hudson, MD, infrastructure, Asia-Pacific, Royal Bank of Canada.

'Ownership and management in state-owned banks were two different aspects which could be separated,' observed Thorat. Ensuring autonomy for state-owned banks need not be through privatisation, but greater empowerment of bank managements, she said.

Shyamala Gopinath said that the RBI is putting processes in place to enable complete financial inclusion. The focus is not just on individuals but also on small businesses. RBI, she said, wants to improve transparency in interest rate derivatives, and also plans to introduce credit derivatives in a calibrated manner to help banks mitigate their credit risk.

Other eminent speakers at the conference included Chandan Bhattacharya, former MD, SBI; Joydeep Sengupta, director, Mckinsey & Co; Tushar Poddar, VP & India economist, Goldman Sachs; MK Sinha, ED, IDFC; Shahzaad Dalal, vice chairman & MD, IL&FS Investment Managers; Jitender Balakrishnan, deputy MD, IDBI; and Vallabh Bhanshali, chairman, Enam Financial Consultants.

Among bank chiefs that addressed the conference included Sanjay Nayar and Neeraj Swaroop, CEO of Citibank India and Standard Chartered India respectively; Rana Kapoor and Gunit Chadha, MD & CEO respectively of YES Bank and Deutsche Bank; MV Nair, CMD, Union Bank of India; Bhaskar Ghose, MD, IndusInd Bank; and D.E. Setijoso, president director, Bank Central Asia.

Piyush Goyal, chairman, finance and banking committee, IMC, proposed the vote of thanks.