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SEMINAR PROCEEDINGS
INDIAN BANKING AT THE CROSSROADS: CHALLENGE OF RISK MANAGEMENT FROM GLOBALISATION TO FINANCIAL INCLUSION

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FOREWORD

About 72% of India's total population resides in rural areas. The reach of the financial services sector is dominant only in the remaining 30% of the population which comprises mostly urban and semi urban population. To achieve an annual growth rate of 8-9% from the current 4.7%, India needs to provide financial services to its untapped population. This will help India to enhance rural savings and improve balance of payments. Direct transfer of subsidies will also boost rural saving and financial growth in this sector, thus reducing poverty. A growth rate of at least 3% per year from the 72% of rural population will add on to the present growth rate of 4.75%. It is a fact that even after 60 years of independence rural India is still depicted as below the poverty line. Thus unless the rural population is brought under purview of financial inclusion, it is impossible to attain inclusive growth. Therefore, financial inclusion is no longer a policy choice but a necessity and the key instrument for ushering in this financial inclusion in the economy are the banking and financial institutions.

The financial services sector is largely expected to mitigate the supply side processes that prevent poor and disadvantaged social groups from gaining access to the financial system. Opening up the financial sector will also attract international market players to India, which will result in increasing employment and business opportunities. Such a genuine financial inclusion is expected to transform the Indian economy into a significant global player. Technology is a great enabler and it has to act as a ladder to achieve the ultimate goal of providing financial services to the financially excluded.

Knowing the vitality of the above facts we chose *"Challenge of Risk Management from Globalisation to Financial Inclusion"* as the theme of the Seminar. This Seminar aimed at providing a forum for interaction with eminent bankers, finance professionals, policy makers, opinion leaders, regulators and other stakeholders in the banking and financial sectors to deliberate upon the role of banking and financial institutions as the growth drivers of the Indian economy in minimising the risk factors.

I am pleased to present this Proceeding Issue on National Seminar on *"Challenge of Risk Management from Globalisation to Financial Inclusion"*. This Seminar was held in association with the Institute of Chartered Accountants of India (ICAI). The Seminar turned out to be a great success and it was felt that the wealth of wisdom shared in the Seminar must reach the public at large.

This publication vividly captures the expert views presented at the Seminar by all the eminent speakers and participants. I am confident that this Proceeding Issue will provide immense value to the readers through insights shared during the Seminar.

Prabodh Thakker
President,
IMC

PREFACE

In the developing country like India the financial service sector plays a very important role not only because it provides assistance to the allied sectors but also it has been a major contributor to the GDP growth. However, since last few years, the finance and banking industry has undergone a period of tremendous uncertainly and upheaval all over the world. In order to encounter the general scenario of the banking industry we need to understand the challenges and opportunities lying within the banking industry of India. Against this backdrop, we chose to organise a National Seminar on *"Challenge of Risk Management from Globalisation to Financial Inclusion".*

The discussions at the Seminar extensively revolved around development of best practices for the banking and financial institutions to play a critical role in diagnosing the health of India's economy for achieving high inclusive and sustainable growth and ensuing its viability.

The speakers at the event comprised the best financial and banking experts of the country, who brilliantly dissected the issues and focussed on the establishment of such a financial intermediation that not only facilitated physical inclusion but also provided in-depth services to the various strata of society, both in urban and rural areas through technology and financial reforms.

I am delighted to find that every year the bar of our Annual Seminar has risen consistently in a positive manner. This year's event focused on practical and futuristic ways of transforming the financial services sector for the growth of the economy with a view to give the much required direction to the future course of banking and finance development in the country.

In my opinion, the information contained in the Proceedings Issue provides an in-depth overview of the entire one-day Seminar on the Indian financial services.

Chandan Bhattacharya
Former MD, State Bank of India &
Chairman, Finance and Banking Committee, IMC

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Executive Summary

'Faster, sustainable and Inclusive growth' is the central vision of Indian policy makers since the 11th FYP. One of the key strategies to achieve inclusive development is by mandating 'Financial Inclusion' in Banking and financial service institutions. The national Seminar organised by IMC on May 8, 2014 was to highlight unique strengths, weaknesses and challenges that needed attention of policymakers to make *"Challenge of Risk Management from Globalisation to Financial Inclusion".*

This one day Seminar was divided into different sessions in order to cover the entire spectrum of issues under the subject of financial inclusion. All the eminent speakers deliberated upon topics such as, Financial Inclusion, Financial Reporting & Risk Management and Innovative Strategies for Funding for SMEs.

Ms. Arundhati Bhattacharya, Chairman of the State Bank of India, graced the occasion with her presence at the Seminar. In her inaugural address as the Chief Guest, she said that risk management always existed in one form or the other in the financial system of all countries but it has assumed new dimensions today. The risk management challenges for banks are becoming increasingly complex and necessitate a strategic use of sophisticated technology. The main risks in today's financial scenario are the interest rate risk and the exchange rate risk. Both affect the delivery of credit in the economy. There is an urgent demand to migrate to the Basel III framework; an internationalization of bank regulatory framework is becoming discernible. As far as financial inclusion goes, India still has a long distance to cover. A more granular approach is required at all levels in the banking system to ensure that financial inclusion in India becomes a reality.

In the valedictory session, the Chief Guest Mr. R. Gandhi outlined the regulator's perspective, and stated that financial intermediation is the most important function of banks. Unfortunately, the connection between the banking sector and the economy is still not properly understood. Risk management is essentially the management of risk and return, and it has taken on highly complex hues today. Risk management needs to ensure that banks' hold adequate capital reserve at all times. Even though the asset quality of banks' is currently not very healthy, there is hope for the future given the proactive steps that the RBI is taking to address the issue. Risk appetite and risk tolerance levels need to be clearly defined and banks' must operate within those boundaries. The efforts of banks' also need to be supplemented with a suitable technological platform. Even though much progress has been made pertaining to risk management and financial inclusion, we still have a long way to go. Unfortunately, a great deal of the quality and reliability of the data available today is suspect. Thus, overdependence on quantitative models is undesirable.

This Seminar facilitated a platform bringing together luminaries from various stakeholders public sector bank, private bank including foreign banks and Corporate. The eminent speakers and panel of experts at the Seminar discussed the entire gamut of issues related to the theme. Owing to which the Seminar was highly interactive and concluded with thought provoking questions and answers providing innovative recommendations for the policy makers.

The conclusions from the Seminar were that, although there are mounting competitive pressures, both domestic and external, Indian banks have to continuously reassess and reposition themselves in the market arena. Capital is going to play a crucial role in the banking sector, as banks need to grow in size to global standards, need to have robust risk management practices, advanced technology, skilled manpower and sound marketing practices. Transformation in the banking sector can be achieved through business correspondence or effective last mile delivery which actually makes the strategy commercially viable which is very important because there is premise in the inclusion strategy that calls for consistent or sustainable subsidies.

The regulators have to play a significant role to safeguard the banks by having adequate policies that promote high ethical and promotional standard and prevent the banks from undertaking irregular unethical business activities. Even the initiatives on technology for financial inclusion should be collaborative and innovative with an objective to reduce the transaction costs. Financial inclusion cannot work unless it goes hand in hand with financial literacy. Therefore it is necessary that not only the rural segment but also the urban segment should to a certain extent be provided finical literacy. Technology enhancement like mobile banking, Low cost branch network and ATMs usage has to be encouraged in order to serve the huge addition to bankable population. As SME segment play an important role the profitability is also increasing at faster rate, new models have to be in place for encouraging the innovation and reduce risks.

The SME sector needs a continuous education on the importance of banking (both formal and the shadow banking system) and the adoption of a cost-effective technological platform. There are issues of technology and connectivity particularly in the rural areas which need to be addressed for financial inclusion to achieve greater success. Risks associated with business correspondents also need to be mitigated. In this context, the authorities could consider bringing in NBFCs as banking correspondents. The usage of mobile phones has extensive penetration in India, they could be used as a cost-effective tool to promote fund transfers and thus contribute to the process of financial inclusion and deepening.

There is a dire need for regulatory enhancements in the form of an optimal alignment of business strategy, scalable IT systems, performance management and reporting platforms. Both financial reporting and risk management need to enter into a fruitful collaboration for mutual reinforcement. Furthermore, the subtle linkages between an institution's risk management system and its Internal Capital Adequacy Assessment Process (ICAAP) need to be explored in more detail and tapped accordingly. Robust internal control system and tight risk management framework at the institutional level in a rapidly growing market. Challenges that banks are facing have to be geared and made to operate in an increasingly globalised environment, although there will be many factors – regulatory, technological, cross-border financial flows impacting them over which they may not have any control. In order to achieve financial inclusion there is a need to assess and consolidate the role of different stakeholders in the banking sector.

Highlights of the Seminar

From L-R : *Mr. Mahesh Thakkar, Co-Chairman, Finance and Banking Committee, IMC, Mr. Chandan Bhattacharya, Chairman, Finance and Banking Committee, IMC & Former MD, State Bank of India, Mr. R. N. Dhoot, Member of Parliament, Rajya Sabha, Ms. Arundhati Bhattacharya, Chairman, State Bank of India, Mr. Shailesh Vaidya, President, IMC, Mr. Prabodh Thakker, President-elect, IMC, Mr. Arvind Pradhan, DG, IMC, Mr. Jitendra Sanghvi, Deputy DG, IMC*

- Inauguration by the Chief Guest Ms. Arundhati Bhattacharya, Chairman, State Bank of India and Valedictory address was given by Mr. R. Gandhi, Deputy Governor, Reserve Bank of India.
- Attended by over 200 participants. The Seminar brought together crucial players/leaders and experts across the spectrum of finance and banking arena to share their experiences and knowledge.
- Active participation from leading bankers, chartered accountants, eminent economists, consultants, management specialists, capital market experts, industrialists, traders, legal experts, senior level executives, students and professors from leading B-schools.
- Focus of the Seminar was on three sessions – (i) Financial Inclusion, (ii) Financial Reporting & Risk Management and (iii) Innovative Strategies for Funding for SMEs.
- Fifteen renowned speakers from varied fields expressing diverse views, enriching their presentations with practical experience and humour.
- Facilitated networking opportunity, value addition in the form of business insights, investment opportunities and latest market trends in the banking sector.

Inaugural Session

From L-R : *Mr. Chandan Bhattacharya, Chairman, Finance and Banking Committee, IMC & Former MD, State Bank of India, Mr. R. N. Dhoot, Member of Parliament, Rajya Sabha, Ms. Arundhati Bhattacharya, Chairman, State Bank of India, Mr. Shailesh Vaidya, President, IMC, Mr. Prabodh Thakker, President-elect, IMC*

Welcome Address

Mr. Shailesh Vaidya

President, IMC

Mr. Vaidya welcomed all the eminent guests and dignitaries at the National Seminar 2014 Indian Banking at the *Crossroads: Challenge of Risk Management from Globalisation to Financial Inclusion.*

Mr. Vaidya extended a warm welcome to the Hon'ble Chief Guest, Ms. Arundhati Bhattacharya and thanked her for sparing time from her busy schedule to grace the occasion. He congratulated her on her taking over as Chairperson of State Bank of India and was of the view that such interactions provide an excellent opportunity to learn, share and pool our intellectual resources for mutual benefit as well as the benefit of society at large.

According to President, IMC, our system is rich in innate potential all that it needs is some out-of-the-box thinking to help realize it. The promotion of formal financial systems and services is central to any effective and comprehensive governance system today. There is a pressing need to restructure the risk-management system in our banking sector so that it meets the national goal of financial inclusion and financial deepening. There is no doubt that the goals of comprehensive financial access are very important. Given their sheer magnitude, they need to be pursued in a manner that does not end up jeopardizing the stability of the financial system. This is precisely where a well thought out risk-management system enters the picture.

In this age of globalization and international competition, several aspects of the functioning of our financial sector need to change. Banks have to develop strong risk management capability and the power to use various tools to manage their exposures to these segments. Many of these ideas were deliberated in this Seminar.

Mr. Vaidya then acquainted Hon'ble Chief Guest, Guest of Honour and the audience with the working of the IMC. He pointed out that even though IMC is not located in the political capital of the country its selfless activities in the larger interest of business community have been recognized by the leaders of the nation. IMC is the first Chamber in the country to get ISO 9002:2000 accreditation in India, which is now upgraded to ISO 9001:2008. having around 3,000 direct members, comprising a cross section of the business community, including public and private limited companies and over 225 affiliated associations through which the Chamber reaches out to over 2,50,000 diverse business establishments in the country. He also explained that as a Chamber, IMC provides inputs and suggestions to policy makers and takes up the cause of trade and industry bringing basic level practical problems of doing business and provide solutions so that the decision makers can take informed decisions.

The President introduced the theme of the Seminar to the audience by saying that in a way, today's programme is to promote IMC's theme for sustainable development, which can be attained only through 'inclusive growth', particularly financial inclusion. IMC continues to maintain a strong focus on issues pertaining to the social and financial sector, green communities, education and skill development, and an overall inclusive and eco-friendly way of life. The lack of a comprehensive approach to risk management has led many financial institutions to create static, *ad hoc* systems and approaches to risk management that are often reactive in nature. As a result, many institutions only understand the need for a more comprehensive risk management process when a crisis occurs, driving up costs and requiring greater time to address than if, the risk had been identified earlier. The economic development of the nation represents both a challenge and an opportunity for our banking and financial sector, which must make appropriate risk management a policy priority, and adopt international best practices to modernize infrastructure and services and thus pave the way towards genuinely sustainable development.

Mr. Vaidya then thanked all the dignitaries for gracing the occasion with their august presence. He expressed his gratitude to Mr. Chandan Bhattacharya, Chairman of Finance and Banking Committee for organizing this Seminar so meticulously.

Introductory Remarks

Mr. Chandan Bhattacharya

Former MD, State Bank of India &
Chairman, Finance and Banking Committee, IMC

Mr. Bhattacharya gave introductory comments for the inaugural session of the banking Seminar arranged by the finance and banking committee of IMC.

Mr. Bhattacharya in his talk opined that the topic of the Seminar was very contemporary and was selected with a purpose. Risk management practices of the banks have come into picture with sharp focus as RBI Governor, Finance Ministry, News reporters, financial industry are seized with the issue of significantly high level of stressed assets the Indian banks particularly, public sector banks.

While explaining about the theme, he said that being financial intermediaries the banks face a host of both financial and non-financial risks. These risks are highly inter-dependent, i.e. something even happening in one area of business can have its ramifications for a range of other areas as well. High exposures in global market are bringing in more and more volatility and fluctuations in the Indian financial system and the market. The banks in India have been moving in tandem, and are making great advances to introduce sophisticated tools to manage their risks. On the other hand, they have been expanding and diversifying at a very rapid speed in the domestic front by way of financial inclusion. They are even offering the basic banking services to the vast multitude of unbanked and under banked population. The phenomenal increase in the volumes of transactions, the high degree of structural changes, the network of delivery process and the complex support system to sustain this growth brings the huge risk involving internal controls and corporate governance. So according to him, the risks are like a rainbow having different hues and colours all of which need to be managed by them on an ongoing basis. Any business has its own risks, and banking is no exception. However, banking business as seen today is interconnected not only with the global scenario but also with the needs and aspirations of the common man at the grassroots level to the farthest corner of the country. So the risks that the banks have to tackle with day in and out are unique and full of complexities. Thus, risks of banks today are like a rainbow – multi-layered and unique.

Mr. Bhattacharya concluded by saying that the detailed discussion during the Seminar on financial inclusion, financial reporting & risk management (on behalf of institute of chartered Accountants) and innovative strategies for funding for SMEs would highlight the various risks that banks are dealing in its day-to-day activity and how they are managing those risks for a stable banking and financial system in the country.

Guest of Honour Address

Mr. Rajkumar Dhoot

Member of Parliament, Rajya Sabha

Highlights

- Risk management helps to augment the business efficiency and this directly or indirectly will help to achieve inclusion and sustainability in growth.
- The role of technology in financial sector is very crucial as it can reduce transaction cost, facilitate large volumes and low tickets transactions, collecting and processing large data volumes, enhance the quality of decision making, offer solutions to check financial frauds.
- Risk management system in banks has to be redesigned in order to promote financial inclusion of low and medium income group as this will enhance the economy.
- Risk management should not lead to risk aversion.
- A new era of banking and financial sector will facilitate globalization, financial inclusion and sustainable development if there is proper risk management.

Mr. Rajkumar Dhoot thanked IMC for inviting him to share his thoughts with this august gathering, on the Indian Banking at the *Crossroads Challenge of Risk Management from Globalization to Financial Inclusion.* He was of the view that the theme of the Seminar has a great deal of relevance to our time.

Risk management in the Indian financial sector is a new practice but has a lot of potential. It helps to increase the business efficiency and benefits the economy and our growth story. During volatile market fluctuations the banking and finance sector needs to prove its strength by withstanding market movements and achieving inclusion and sustainability in growth. It is only through this way there is hope to remove poverty and bring about social and economic justice. Countries whose banking systems have dependable risk management strategies in place generally have higher levels of financial inclusion. Indian banking sector is changing due to global financial crisis situation. Recent development in the western world have highlighted that Risk Management Act should be obtained in our country as soon as possible or otherwise there will be compromise in the stability and safety of our banking system.

While talking about strategies of risk management system, Mr. Dhoot reiterated that RBI had launched a 3-year financial inclusion programme in April 2010 stimulating commercial banks to open outlets in villages over and above population of 2,000. They also set a target for banking to cover all villages with population of less than 2,000 through its financial inclusion plan for 2013 to 2016. This large expansion will naturally have challenges of new risks emerging and their management by banks. Therefore, according to him there is a need for more economic reforms in India and especially in the financial sector.

In Mr. Dhoot's view, since past few years the Indian economy has been hit by a slowdown which has lowered the business confidence, investor sentiments and international image. In order to change Indian financial sector, the role of technology can play a very important role as it can reduce transaction cost, facilitate large volumes and low tickets transactions, collecting and processing large data volumes, enhance the quality of decision making, offer solutions to check financial frauds. This exhausting risk management system in banks has to be redesigned to promote financial inclusion of low and medium income group. Treating it as a business opportunity, banks may need to make use of all available resources, including technology and expertise available with them. Genuine financial inclusion can facilitate substantial economic growth. India is fortunate to have both great institutions and individuals which will ensure that our system bounce back into shape and continues its journey of economic growth. But the only concern is the risk management that should not lead to risk aversion. Banks must encourage its officers to take well calculated business risks so that financing a project and entrepreneurship is not affected. Flow of funds to entrepreneurs for deserving projects must continue for economic development. A well thought out risk approach by banks can ensure such flow of capital to deserved sectors.

Mr. Dhoot concluded by giving a note of caution that risk management is nothing but minimizing NPA. He opined that *'A new era of banking and financial sector will facilitate globalization, financial inclusion and sustainable development if there is proper risk management.'*

Inaugural Address

Ms. Arundhati Bhattacharya

Chairman, State Bank of India

Highlights

- *Perception of risk in context to international aspects and financial inclusion.*
- Innovation to sustain development in financial markets and institution in economic seldom.
- Challenges for Indian banks: Quality management of the assets, shrinking deposit base and need for raising greater capital
- Banks which are able to correlate and find a balance from the globalization and financial inclusion will survive and prosper.
- Banking is all about risk management. Banking is a business of taking risk at multiple level i. Risk in accepting deposits ii. Risk in lending money and iii. Risk in moving money.
- The main risks in today's financial scenario are the interest rate risk and the exchange rate risk and both affect the delivery of credit in the economy.
- During Global financial crisis two major risks were identified – one is that it leads to heightened sensitivity to shocks in the international markets and the other is increased vulnerability to exchange parity movements and interest rate volatility.
- The best ways to measure, manage and mitigate risk differs from bank to bank.
- Internalization of International bank regulations due to the high risk.
- Need to migrate to the Basel III framework, an internationalization of bank regulatory framework is becoming discernible.
- Issuance of special advisory for banks to provide for unhedged forex exposures on the books of their corporate customers by RBI
- In order to gain ground in areas where informal finances are prevalent, banks have to devise new risk management models.
- Increasing financial inclusion would also necessitate developing new models of risk management, and our banking system has to be prepared for it and rise up to the occasion.

- Globalization demands that we be more aware of what is happening around us – how other markets and economies move over time, and its likely impact on us. Risk is inherent in banking business but forward looking vision of managing risks will gain more importance *for both banks and regulators in the days to come.*

IMC has been holding regular events covering subjects of topical interest and deliberations and have thus received close attention of the finance fraternity. The topic selected was very meaningful as the Indian Banking system confronts the headwinds of muted growth in the global and domestic economy, pressures on asset quality, profitability and capital adequacy front and challenge of new demands and competition. Until and unless banks are able to adequately cope with the current challenges, the risks associated are likely to swamp the banks and aggravate the system with disastrous consequences. It is, therefore, in the interest of all the stakeholders that the risks be clearly identified and sustainable corrective steps put in place to ring fence the banks and make them an important contributor to the growth of the economy.

She endeavored to present her perspective about how best the banks can meet these challenges and manage the risks associated with globalization and financial inclusion. However, she stated that the range is from one end of the spectrum to another, i.e. international to rural and no two aspects could be as divergent as these two. She highlighted on 3 aspects: first, a brief on how risk should be perceived, second, on the international aspects and lastly on risks pertaining to Financial Inclusion.

In the context of risk management, Ms. Bhattacharya has always believed that risk must be accepted and propagated as a living concept. In her role as Chairman, SBI, she has experienced that there is a serious lacuna in understanding risk at various levels. Risk understanding is mostly confined to the upper echelons of the Banks and appreciation of the concept and its implications are not fully developed at the lower levels or with the front line staff. In her view, until risk understanding is made all pervasive and percolated right down to the person doing transaction at the counter, we will continue to face all kinds of issues. While risk cannot be eliminated, it can be minimized by our greater knowledge about the kind of possibilities that may arise as a consequence of undertaking any business transaction. We will then be better placed to manage risks and come out with improved solutions.

While illustrating about risk aspects of Globalization she said that Globalization is not new for us. In pursuit of the opening of the economy and liberalization reforms, our economy has been gradually integrated with the global economy and the impact could not have been more apparent than in the global financial crisis of 2008-09. The two major risks of globalization can be learned as – one is that it leads to heightened sensitivity to shocks in the international markets and the other is increased vulnerability to exchange parity movements and interest rate volatility. Both these can lead to financial crises in terms of imbalances in the trade flows and capital flows. The QE tapering in the U.S. economy is a case to point and even rumors were impacting markets and policy prescriptions had to be put in place by regulators to minimize the impact of QE tapering and ensure financial stability. China's strategy of shifting its economy towards an import substitution based service one will sooner or later affect India's services exports to China. Globalization therefore demands that we be more aware of what is happening around us – we have to be watchful of domestic policies of other economies, how markets are moving and what will be resultant impact on us. This calls for a robust and agile mechanism which is capable of reading the signals and determining corrective steps. Internationalization of regulations and the macro commonality of approach is another means of risk mitigation. Directives of the Basel Committee, Financial Stability Board, the World Bank and IMF are all geared towards a regulatory framework to ensure financial stability. RBI too has adopted these international regulations and come out with revised guidelines on Stressed Assets Management norms, Restructured book of banks and unhedged exposures, etc. It has taken cognition of making risk analysis more dynamic and moved away from CAMELS (Capital Adequacy, Asset Quality, Management, Earning, Liquidity, Systems and Control) to a Risk Based Supervision system, with Risk Profile Templates for self-assessment of risks in a structured format, which aims to ensure that the incipient risks in banks are proactively identified and Stringency in BASEL norms is also a step in this direction. All this brings to focus the need for better internal controls, corporate governance, improved systems and models for recognizing early warning signals and putting in place mechanisms which will react quickly with workable solutions on the back of analytics and technology supported by propagating risk orientation awareness at all levels.

While the risks of globalization can be contained through systemic interventions and policy modifications, as they directly impact interest rates and exchange rates, the risks under Financial Inclusion have a more local dimension. She touched upon the risk of not being a part of Financial Inclusion (FI). This is the risk of opportunity loss and this outweighs the risks associated with FI business. In this context, she reiterated words of Wayne Gretzky, a renowned ice hockey player of Canada who said: "You miss 100% of the shots you don't take". This aptly applies to non-participation in Financial Inclusion. Nearly 40% of the population in India is not having a bank account, and this represents a huge untapped business potential. Banks can ill afford to ignore this untapped market as with economic growth and increased commercialization and modernization of agriculture, it is this segment that will move upwards on the aspirational and affluence curve. They have to be brought into the mainstream, to meet their banking needs so that their contribution to the economic growth will in turn benefit the banking system.

The principal risk is how to manage the business, with pressure on profitability and limited capital resources, financial inclusion needs to provide adequate returns or at least be cost neutral. Therefore, a sustainable and reliable business model that addresses this requirement is a requirement which is also cost effective. This could be technology based through hand held devices outsourced to local service outlets with transaction based costing. Technology has to be leveraged for greater reach and penetration.

Another risk is linked to the model of outsourced services, i.e. the BC channel. Since the BC is the agent of the institution it represents, Reputation risks for the principal automatically arise. Any shortcoming in delivery, incorrect practices, fraudulent activity, etc. by the BC will lead to serious costs implications not only in terms of compensation but also loss of face and credibility. This will in turn impact investor sentiment. Therefore necessary safeguards will have to be provided to minimize such eventualities by careful selection of the delivery channel with contracts which clearly spell out the rights and obligations of the respective counter-parties.

The other risk is that of credit exposure. Since most of the borrower class is likely to belong to informal businesses and not amenable to credit scoring models, tools for continuously assessing portfolio risk is of paramount importance. Risk mitigating factors like setting tolerance limits and exposure limits with geographical, sectoral, population group, credit type, etc. will have to be assessed, stipulated and constantly monitored.

In conclusion she reiterated that risk is inherent in the financial sector but we need not be shy of doing business because of the prevalence. What is important is to minimize the risk within tolerance limits and to equip ourselves with effective tools which will help us to do this formality. Information, Identification, and Containment are key words in risk management be it from globalization or financial inclusion. Risk awareness should be ingrained in the business culture as it is only when we know the risk that we give ourselves an opportunity to manage it and improve the probability of success. Banks are continuously evolving and adapting to change and the current challenges are also not so daunting that we cannot overcome them. She closed her address with Warren Buffet's words: ***"Risk comes from not knowing what you are doing."***

Vote of Thanks

Mr. Prabodh Thakker

President-Elect, IMC

Mr Prabodh Thakker acknowledged that this Seminar is indeed a unique Seminar as it was an august assembly of dignitaries, experts and professionals from banking and finance industry.

Mr. Thakker expressed his gratitude to the Chief Guest, Ms. Arundhati Bhattacharya, Chairman, SBI, Guest of Honour, Mr. Rajkumar Dhoot, Member of Parliament, Rajya Sabha, Mr. Shailesh Vaidya, President, IMC for encouraging this initiative undertaken by the Chamber. He also acknowledged the presence of Mrs. Usha Ananthasubramanian, CMD, Bharatiya Mahila Bank. Mr. Chandan Bhattacharya, Chairman, Finance and Banking Committee, IMC, Mr. Mahesh Thakkar, Co-chairman, Finance and Banking Committee, distinguished speakers and the audience.

He also expressed his gratitude to all the speakers for sharing their passion and expertise in the field of banking and finance which provided valuable insights on the subject and disseminate the same to a large audience.

While talking on the topic, he emphasized on the inherent nature of the banks i.e bankers' core activity which is associated with a risk. According to him, Loan should be encouraged for production rather than consumptions alone. Although, there is an enormous challenge and pressure on how to maintain growth, as the risk that banks have to manage are especially of two types (interest rate and exchange rate risk) in context to globalization and following 2008 meltdown.

He also congratulated Mr. Chandan Bhattacharya and his entire team for conceptualizing and successfully executing such an interesting program at such a short notice that too with a very relevant and timely topic risk management. He thanked and complimented ICAI for being Seminar partner.

Finally, he made a special mention of Sponsors, Standard Chartered Bank, State Bank of India, Syndicate Bank, Reliance Capital, Canara Bank, Shri Ram Transport Finance Limited, Union Bank of India, EXIM Bank and Small Industries Development Bank of India (SIDBI) for extending their support to the Chamber in organizing such an event. He thanked and complimented Media for engaging themselves and showing an interest at IMC's vital programmes. Lastly, he made a special mention of the hard work put in by the IMC Secretariat, and all those who have worked silently behind the scene.

http://www.imcbankingSeminar.com/.

Session I : Financial Inclusion

CHAIRMAN
Ms. Usha Ananthasubramanian
CMD
Bharatiya Mahila Bank Ltd.

SPEAKERS

Dr. M. G. Vaidyan	**Mr. T. K. Srivastava**	**Mr. K. V. Srinivasan**
Deputy MD	*ED*	*CEO*
State Bank of India	*Syndicate Bank*	*Reliance Commercial Finance*

***From L-R :** Mr. K. V. Srinivasan, CEO, Reliance Commercial Finance, Ms. Usha Ananthasubramanian, Chairman and MD, Bharatiya Mahila Bank Ltd. Dr. M. G. Vaidyan, Deputy MD, State Bank of India, Mr. T. K. Srivastava, ED, Syndicate Bank*

Chairman

Ms. Usha Ananthasubramanian, Chairman and MD, Bharatiya Mahila Bank Ltd.

Highlights

- The essence of financial inclusion is to ensure access to financial services.
- Financial inclusion aims availability of timely and adequate credit desired by vulnerable groups, i.e. weaker sections and low income groups at an affordable cost.
- The Reserve Bank urges banks to adopt an approach which involves connecting people with the banking system not just for credit purpose.

- Dr. Rangarajan Committee recommended financial inclusion to be taken up in a mission mode at national level.
- The vision for 2020 set by the Committee was to open *nearly 600 million new customer accounts and service them through a variety of channels.*

Ms. Usha Ananthasubramanian while expressing her views on the matter stated that India itself is at the crossroads and all of them are waiting for May 16th for the same. She started with the quotation of Franklin Roosevelt i.e. 'The test of progress is not whether we add more to the abundance of those who have much, it is whether we provide enough for those who have too little'.

While talking about financial inclusion, she said that it is a process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups especially weaker sections and low income groups at an affordable cost. In India it is at an evolutionary process as like across the other countries. Internationally, it has been estimated that over 2.5 billion working age adults have no access to formal financial services, delivered by regulated financial institutions. In the age group of 15 plus years world has achieved has 50% inclusion for males and 47% for women. However, in developing countries like Sub-Sahara in Africa only 24% of the adults have bank accounts, position of lending is worse at only 9% of the population. An interesting feature which come forward from the international practice is that more developed the society is, the greater is the thrust on empowerment to the common person and low income groups.

The essence of financial inclusion is to ensure delivery of financial services which include - bank accounts for savings and transactional purposes, low cost credit for productive, personal and other purposes, financial advisory services, insurance facilities (life and non-life) etc. She cited this with an example of UK, where lot of financial inclusion is happening. They focus on three priority areas for the purpose of financial inclusion, access to banking, access to affordable credit and access to free face to face money advice. UK has established financial inclusion fund to promote financial inclusion and assigned responsibility to banks and credit unions for this. Basic banks No Frill Accounts have been introduced. The concept of savings gateway has been piloted in addition the community finance lending initiatives were also introduced with a view to promote basic financial literacy among housing association of tenants.

Ms. Ananthasubramanian briefed about some of the key features of the banking account of the developed and developing countries wherein she explained about US, Brazil, Mexico and their functioning of financial inclusion.

While talking about Indian context, she said that history of Indian banking was divided into many parts, first was the nationalization in 1970s, followed by the reform era of the 1990s and thereafter the 2000 the era of technology started introducing the new phase for the revolution of financial inclusion, which is currently happening in India.

Even after so many reforms, a large section of Indian population still remains unbanked. The needs and expectations of the poor people from the financial system are principally access, ease of access security and safety of deposits, low transaction costs, convenient operating time, minimum paper work, ability to transact easily, avail quick and easy access to credit and other products including remittances, etc. So the mainstream financial institutions like banks MFIs, NBFCs have a very important role to play in this regard. if we have moved from nothing to something today it is the contribution the efforts put in by the banks and all stakeholders and all other allied partners.

Ms. Ananthasubramanian highlighted the role played by government and Reserve Bank of India in encompassing the idea of financial inclusion i.e. the delivery of financial services at affordable costs to vast sections of disadvantaged and low income groups.

RBI set up the Accounts Commission in 2004 to look into financial commission and the Reserve Bank exhorted the banks to adopt an approach which involved connecting people with the banking system and not just credit. So that was the beginning of financial inclusion in the country. Thereafter, in 2005 financial inclusion first featured in its core form which was introduced by Dr. K. C. Chakraborty, Chairman of Indian Bank at Mangalam Village. Norms were relaxed for people intending to open accounts with annual deposits of less than 50,000 etc. In order to reach to the unreach in 2006 January, Reserve Bank of India permitted commercial banks to use their services of NGOs, SAGs, microfinance institutions and other civil society organizations. In 2008, Dr. Rangarajan Committee was formed which recommended that financial inclusion must be taken up in a mission mode at national level. The vision was reiterated to open nearly 600 million new customer accounts and service them through a variety of channels like Initiation of no-frills account, Banking service reaches homes through business correspondents, EBT – Electronic Benefits Transfer etc. till 2020. But according to her this is impossible as financial inclusion can't enhance unless there is financial literacy. Financial inclusion and financial literacy travel together, so there is need for an integrated approach. She cited this with an example of Bharatiya Mahila Bank.

Ms. Usha Ananthasubramanian outlined the importance of financial inclusion in India, saying that it is an evolutionary process. The needs and expectations of the poor from the financial system have to be adequately understood and appreciated, and facilitative measures undertaken accordingly. The issue of women's empowerment through financial inclusion is important for Indian society, and it needs to be addressed. There is a gap between male and female entrepreneurs and financial inclusion would help, to an extent, in bridging it. Financial inclusion has increased considerably in the past 35 years but it is debatable whether it has been enough to met social objectives. Ultimately, financial inclusion has to become a viable business model for the banks.

Speakers

Dr. M. G. Vaidyan, Deputy MD, State Bank of India

Highlights

- Nearly 45% of rural India does not have bank account and 40,000 Rural Bank branches cater to 6 lakh villages.
- Inclusive growth is possible only through financial inclusion i.e. awareness, availability, accessibility, affordability, acceptability.
- The banks are ensuring to get 100% opening of accounts of all Direct Benefit Transfer (DBT) beneficiaries.
- Risks are associated with Business Correspondence (BC) Channel.
- All the accounts opened through BC channel reside on Core Banking Solutions (CBS) platform of the bank owns ever.
- Challenges that banks are expected to manage is to link the branch along with the thousands of business correspondent outlets which can be done only through innovation and technology.

In Dr. M. G. Vaidyan view, financial inclusion started only after the system of business facilitators and business correspondents were started. He stated that nearly 70% of Country's population resides in rural areas, of which nearly 45% of rural India does not have bank account and 40,000 Rural Bank branches cater to 6 lakh villages. Inclusive Growth is not possible without reaching to unbanked villages as this can be done only through financial inclusion i.e. awareness, availability, accessibility, affordability, acceptability.

He highlighted about India's unique Financial Inclusion Model driven by GOI and RBI. He gave brief introduction about the nationalized banks, RRBs etc and even schemes like lead bank scheme, Self Help Group linkage programme, service area approach that are followed. Currently, according to him, Priority Sector Lending requirement is around 40%, of which Agriculture is 18% and advances to Weaker Section is 10%. He explained his experience and life journey of financial inclusion from rural to urban India and further to International level. While explaining his journey he stated the core of financial inclusion, rural architecture, multi channel distribution, technology, financial literacy, product range, tie-up & alliances, micro finance, human resources, risk mitigation and viability & sustainability etc.

Financial inclusion is very important in context to business. Mostly all banks do the same business such as home loans, car loans etc and only their rate advantage differs. The challenges that are faced by banks are identical i.e customers do not have a bureau track record; second, the traditional way of underwriting won't work for these customers, because the cost of doing such an underwriting is very expensive. The third issue is identity frauds. Most of the banks have solved this by using credit scoring, credit underwriting in the form of technology.

He depicted the current thrust of financial inclusion which is on ATM Cards to DBT beneficiaries, KCCs customers, Setting up of Branches, CSPs, ATMs, Account opening & Aadhaar Seeding, Improvement in Transactions in BC channel accounts, Spread Financial Literacy, Awareness, Coverage of unbanked villages, Activate inactive CSPs Accounts, Micro Credit etc. He showcased the outcome that banks obtained because of financial inclusion, wherein he said that nearly 10 crore Basic Saving bank accounts opened in last 3 years. Nearly 7400 rural branches were set up during last three years. So far the total 109,000 branches are spread across the length and breadth of the country. Nearly 2, 36, 000 CSP outlets was set up in rural areas and over 54,000 CSP/BC outlets was set up in urban location. So far 74,398 unbanked villages (population > 2000) are covered and around 3 lakh more unbanked villages will be covered within next three years. In order to increase the reach Cash dispensing machines are being modified suitably to make it user friendly for people who are illiterate, less educated or do not know English. The banks are ensuring to get 100% opening of accounts of all DBT beneficiaries. All stakeholders like GoI / RBI / Banks / MFIs/ Service Providers are involved in expanding their reach and are trying to have their last mile connectivity. But there are risks Associated with BC Channel like technology, reputation, disruption, customer awareness etc.

Lastly he concluded by saying about SBI, wherein he said that it was the first bank to have its own technology for BCs channel. I.e. Internet based - Kiosk Banking, Solution which supports biometric authentication and real time online with Bank's CBS system, all the accounts opened through BC channel reside on CBS platform of the Bank in its own server and not on third party or BC server, Adequate publicity material on banking products is placed in local language at CSP outlets Officers from link branches are visiting CSP outlets every week. Controllers are also visiting CSPs outlet periodically etc. The only big challenge that has to be managed is the linkage of branch along with the thousands of Business correspondent outlet and the can be done only through innovation and technology.

Mr. T. K. Srivastava, Executive Director, Syndicate Bank

Highlights

- Nationalization of banks was a revolution in the banking sector but the financial services available to the poor who are not connected with banking facilities is still a distant goal.

- Banking industry is not a wealth generating mechanism but a wealth transmission and distribution mechanism.

- It is not enough to think of inclusion in terms of having achieved this physical presence, inclusion is a question of availability, utility and value of services.

- Financial inclusion cannot work unless it goes hand in hand with the financial literacy.
- It is only because of initiation of private and public sector that the number of accounts has increased but in terms of utility and value, hardly 25% of accounts are being operated and rest 75% are almost dormant accounts.

Today, there is a national as well as global focus on inclusive growth. It is not possible to attain inclusive growth without achieving innovative financial inclusion. Financial inclusion is nothing but a number game. It is concerned with number of villages that have been covered and number of accounts opened. As per the FINDEX survey around 35% of Indian adults are covered under Banking of which only 8% only borrow formally, 2% of that use bank account to receive money from a member that is the migrant remittance. This expansion has happened because of RBI, government and public sector.

According to Mr. T. K. Srivastava, nationalization of the banks in 1969 was a path breaking state in deploying the financial services for the transformation of the economy. The major aim was to reach to the poor people who are not banked and thereafter lead bank scheme was started. And then banks started opening branches across the country in difficult places. Thus, banking industry is not a wealth generating mechanism but a wealth transmission and distribution mechanism.

He explained about the journey of Syndicate Bank and its financial inclusion since its inception, how it got started from pigmy deposit scheme to BC model. He reiterated that it's not enough to think of inclusion in terms of having achieved the physical presence, inclusion is a question of availability, utility and value of services. He cited this with an example i.e. if the account is opened and money is deposited, the money will be invested, employment would be generated and it will lead to some more money in the economy and the whole gamut of the society of this country will benefit.

Financial inclusion cannot work unless it goes hand in hand with financial literacy, but this segment has been least touched. He was of the view that if financial inclusion has to happen it is necessary that all segments of the society should be endowed with the financial literacy i.e. about financial sector, products of the bank, etc. Although concept of financial inclusion has been floated by Reserve Bank of India and the Ministry of Finance, it was limited uptill now i.e. only for opening of accounts and it has not gone beyond that. Because of initiation of private and public sector the number of accounts has increased but hardly 25% of the accounts are being operated and rest 75% is almost like a dormant account. As financial activity is less poor people go to MFI or money lender to take loan at a very high rate. Therefore it's necessary for the banks to develop a sustainable model, where economics can work.

Mr. K. V. Srinivasan, CEO, Reliance Commercial Finance

Highlights

- Financial inclusion is no longer a policy choice today but a compulsion and therefore there is a need to promote enterprise particularly SMEs.
- Core Business of NBFC is to lend and advantage of NBFC model of lending to its major customer i.e. the MSMEs is that they do not bother much about collaterals rather they look at the productivity and employment generating capacity of the borrower.
- Key factor limiting the growth of banking sector is that there is still very high cost of delivery and that can be reduced substantially by multitasking activities by the service providers.
- Educating the population is the only suitable practice so as to have financial inclusion in the real sense and that can be achieved if the banks open financial literacy centres across districts where it happens to be the lead bank.
- A certain amount of trust has to be developed between the banks, the regulators and the NBFC sector.

A firewall needs to be created so that there are no collisions between the NBFCs own funds and the funds from banking services provided by the NBFC Mr. K.V. Srinivasan highlighted on NBFC sector what it has been doing so far as far as the cause of financial inclusion is concerned.

According to Mr. Srinivasan, financial inclusion is not a 'CSR' activity or a mandated activity but it is done because it is commercially viable and it is the key factor which will ensure sustenance of such kind of efforts. India although having a huge population especially youth population but the large proportions of it are excluded from the formal financial system also depicted higher poverty ratios and greater inequality. Thus, financial inclusion is no longer a policy choice today but a compulsion; therefore there is a need to promote enterprise of SMEs to the hilt.

He talked about certain specific areas like provision of loans, generation of deposits, financial literacy and education, micro insurance and micro savings, as well as the other part which is basically the remittances and payments and so and so forth which are usually not very much talked about in the financial inclusion space.

According to him the core business of NBFC is to lend and most of the NBFCs lend to sectors like MSMEs, small transport operators etc. NBFC's are preferred by most of the SMEs as its model of their underwriting look at cash flows and ride on the cash flow without bothering too much about the collateral part. So that in itself creates a large opportunities for first time borrowers to actually come into the system and take loans and they focus mostly upon funding assets, fund productive assets i.e each of the assets or each of the loans that they provide actually generate employment and generate some amount of financial activity. MFIs and such institutions recognized by the Reserve Bank of India have facilitated pooling of resources, bringing better investment opportunities and ensuring that the economic growth takes place.

He emphasized on very important factor that because of multitude of products being offered, loans on one side, saving instruments on the other, the cost per transaction can be brought down drastically because the same person can be encouraged to do multiple activities, thereby a per transaction cost can be brought together altogether to a very, very low level. One of the key factors today that are limiting the growth of the banking correspondent experiment is the fact that the cost of delivery is still pretty high, and unless and until the bank is in a position to shell out a much larger amount of fee to the BCE. The BCE is really not encouraged enough to take this activity as a commercial activity. So by cutting down the cost, by enabling the NBFC sector to be a banking correspondent, this target can be achieved easily.

To reach the poorest of poor, banks have been giving bulk loans to micro finance institutions and small borrower. Banks have also been extending micro-finance program in the country through Self-Help Group (SHG)-Bank Linkage. Even, MFI sector is certainly at the forefront in terms of financial literacy and education because they bring in a lot of diverse people specifically women into JLGs and Self Help Groups and so on and so forth. Yet the reach is not as per requirement, therefore Education should be provided about financial sector and products of the bank at present and their potential in future. This can be done only if banks open financial literacy centers across each and every district where it happens to be the lead bank. And all of this would ultimately lead to better financial inclusion.

Lastly he concluded by saying that the NBFCs can play a very significant role in financial inclusion, but there is the need for more collaboration and a certain amount of trust in each other between the banks, the regulators as well as the NBFC sector. It is very necessary to put into practice firewalls so that there is no contagion or there is no co-mingling of funds between the NBFC's own funds and their activities as the banking correspondent. It is certainly possible to work within the parameters concerned and develop such kind of schemes to go forward. He explained about the business model which NBFCs and banks play, they both are not in competition but they are compliments. NBFCs are not branch dependent, while bank necessarily is branch dependant. The only big difference is probability utilization for financial inclusion should be duel based (I.e. walk-in-walkout are balanced for successful financing).

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Session II : Financial Reporting & Risk Management (ICAI Session)

CHAIRMAN

CA. Charanjot Singh Nanda

Central Council Member, ICAI

SPEAKER

CA. Jatin Lodaya

Freelancer Professional

From L-R : *CA. Charanjot Singh Nanda, Central Council Member, ICAI, CA. Jatin Lodaya, Freelancer Professional, Ms. Shruti Shah, Secretary, ICAI, Western Region*

Chairman

CA. Charanjot Singh Nanda, Central Council Member, ICAI

Highlights

- Purpose of Financial Reporting is to enable people in taking informed decisions for what they intend to do in future even though risk is a totally unpredictable fear.
- Risk Management is attributed to attract sustainable returns through low cost long-term investments particularly in attractive industry.
- Unforeseen risk can be factored only through financial reporting as it guides investors, government, bankers, etc. to settle in future with regard to financial stability.

- It is necessary to clear the perspective of risk management one is holding, as it is different for everyone (board, stakeholders, employees)
- Introduction of derivatives and hedging to contain the risk eventually turned out to be a risk nightmare because of the fact that risk is dynamic and reporting is a static phenomenon.
- Financial reporting should be uniform and of standardized format.
- Financial reporting will be in synchronization at global level enabling the reader to take informed decision based on the uniform disclosures.
- If all countries start reporting on IFRS then results would be better but the only problem is risk depends on geographical areas.

Mr. Nanda, expressing his views on the session on financial reporting and risk management, said that traditionally, financial reporting has always been like a post mortem. The basic purpose of financial reporting was to ensure that people can take informed decisions for what they intend to do in future, although risk is a totally unpredictable fear.

According to Mr. Nanda, the risk management is defined to generate attractive sustainable returns through a strategy of investing in long-life, low-cost, expandable operations in most of the attractive industry sectors. Accordingly international standards, an organization have nearly 31,000 as coordinate's activities to direct and control an organization with regard to risk.

International financial reporting standards bring about control and have a very important role to play. ISO guide 73, says 'risks that remain rise even after risk treatment', i.e there is need to counter the risk through strategies. Thus, the unforeseen risk can be factored only through financial reporting. It is an essential element as it is a guide to people, investors, government, bankers to go and dwell in future with regard to the financial stability, financial viability of organization or entity in which they want to venture.

While talking about risk management, he said that the last date for sending the comment on the Discussion Paper on Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging is 17 October-2014. The approach is the portfolio revaluation approach (PRA), which aims to better reflect dynamic risk management in an entity's financial statements. As the risk management is a common activity that is applied by many if not most entities. The other option is of IFRS. Wherein the international accounting standard board recognizes risk as an integral element of IFRS reporting standards. IFRS wants to give down certain disclosures which are able to give a thought process to the ultimate reader of the financial reports what is our stance of the entity on risk management.

He concluded by saying that, firstly what is the perspective of risk management disclosures, do we need perpetual alerts because risk is different for different facets like board, stakeholders, employees, regulators etc. Therefore its necessity to clear exactly which perspective is needed.

Secondly, he opined that 4 or 5 years back, it was depicted that risk can be contained by bringing in derivatives or hedging which ultimately turned to be a risk nightmare for the entire industry. As risk is something which is dynamic and ever changing while, reporting is on a particular date on which the affairs of the entity need to be reported, so it can't keep on changing always. IFRS will bring some good things but it will not be a total solution for all these problems.

Thirdly he said that, what needs to be reported in financial reporting vis-à-vis risk management is that, what you intend to report, what does the reader of the financial statement want from you, report has to be consistent, it has to have a standardized format. Different reports for different people can't be issued. Only an internal audit report can be different for different facets.

Lastly while speaking on global impact; he reiterated that IFRS will help globally as financial reporting will be in a synchronized fashion so that a person who reads is able to take an informed decision based on the disclosures. If all the countries start reporting on IFRS then results would preferably be better, but the only issue is that that the risk depends on geographical areas.

Speaker
CA. Jatin Lodaya, Freelancer Professional

Highlights

- Financial Reporting is a measure to disseminate the financial information for important decisions as it is contrary to economic logic.
- It has been depicted that conservative accounting standards influence risk management.
- Every bank has a different appetite but if its financial reporting is in good shape then its managers will be able to manage the risk in a better manner.
- Financial inclusion is a key strategy to achieve inclusive development. There is need to develop a business model comprising consistent accounting policies and procedures for promoting financial inclusion leading to sustainable economic growth.
- RBIs risk management norms now amalgamated as Enterprise Risk Management where it is expected to cover entire risk which differs from bank to bank and where the mechanism of ICAAP applies which is isolated from RTI Act, so nobody sees the filing except the auditors, bank management and the RBI.

- To balance the duplication between working and norms of the local banks.
- There is this third model, which is financial reporting model and this creates the space for conflicts between the risk management and the financial reporting.
- India is at the crossroads, although it wants to move ahead, but financial reporting is not supporting and that is because it is prepared and made in a certain manner which is not neutralized.
- The subtle linkages between an institution's risk management system and its Internal Capital Adequacy Assessment Process (ICAAP) need to be explored in more detail and tapped accordingly.

Mr. Lodaya briefed about the role of financial reporting, and said that it is a paramount importance for the growth of any sector as it is a measure to disseminate the financial information for important decision making process by the various stakeholders, it may be either investors, regulators, government authorities or any other stakeholders. For having a robust framework of financial reporting as it is necessary that the accounting standards on the basis of which reporting is done are sound. His presentation focused on how financial reporting can support risk management.

He cited an incident about the Basel discussion, wherein there were discussion on significant differences in perspective between accounting standard setters and prudential supervisors. The risk perception varies amongst various stakeholders because of which the decisions of taking risks vary. Most of the times it has been depicted that Conservative accounting standards influences risk management decisions as it is contrary to economic logic. Therefore to examine the reasons for these differences and propose ways in which they could be reconciled. A strategy is proposed based on two principles: first, in the long term, the "decoupling" of the objective of accurate financial reporting about the firm from that of instilling the desired degree of prudence in its behaviour; and second, a "parallel" process towards that objective so that at all points the prudential authorities can neutralise any undesirable implications for financial stability of changes in financial reporting standards. The stress is given to the close cooperation between accounting standard setters and supervisory authorities as it is necessary for developing the final set of information and implementing it.

According to him, financial reporting should provide a good sense of the impact of those risks and uncertainties on measures of valuation, income and cash flows. It should be consistent with sound risk measurement and management practices, in order to take relevant and well informed decisions. It should be beyond numbers and should include estimates of risk profiles.

Mr. Lodaya reiterated that every bank has a different risk appetite, but if its financial reporting is in good shape, its managers will be able to manage risks better. Elements such as IFRS, ADF and ICAAP are the success mantras to better risk management.

Due to globalization local auditors have to largely rely on the past consistent globally accepted practices and then to base their audit opinion on explanations and representations coupled with test of controls and substantial checking to the extent possible that banks are also required to adhere to the guidelines of the RBI with regard to computerization and the checks and controls around it.

Financial inclusion is a key strategy to achieve the inclusive development it is a necessary condition for the financial deepening which will help us to address the basic issues of growth with equity. The main ingredient for financial inclusion is consistent accounting policies and procedures. In this context, there is continuous innovation in delivery and design of the financial services required; as the target audiences are from economically marginalized section. There is need to indigenously develop a workable business model and an integrated delivery model geared to promote financial inclusion as this in turn will lead to sustainable economic growth.

While talking about annual report, Mr. Lodaya was of the view that, it should not only reflect numbers rather it should give some more facts as it is necessary from financing perspective. Although the way of displaying annual report is been reviving as risk management plays a key role and organization has to disclose their strategy through financial reporting.

RBI has mandated that each bank will have a risk management framework. The guidelines for the same were published in 1992. But now it has been coined as enterprise risk management, rather than having a credit risk model or market risk or operational risk. They want the entire organization to cover end to end risk management. Each bank has its own risk appetite. ICAAP is the only place where in the bank discusses about business and finance risk. Otherwise business thinks only of budget strategy. Internal Capital Adequacy Assessment Process ICAAP is the only document which a bank has to submit to a regulator. It is not a public document; neither can be file at RTI and get hold of. But it is an auditable document, so except auditors, the management of the bank and RBI, nobody sees the document.

Mr. Lodaya briefed audience about the Basel, II and Basel III reforms. He then reiterated that Basel II and III has three pillars

1. Computation
2. Sort of ICAAP and risk management
3. Their disclosures

ICAAP is also one of the financial reporting regulator returns due from a bank to RBI annually.

Financial reporting is based on hard facts and accounting ledgers. If balance sheet is of 31st March 2014, it does not depict what will happen in 2015 or 2016 or ’17. And that’s why ICAAP comes as well as the strategy in MIs. So financial reporting data will be used by the senior management of the bank to arrive at certain trends and create future strategies. On the basis of risk appetite they will come out with the risk management framework and both together will be the business model of each bank.

The finical reporting depends on the chart of account level and that is totally dependent on IT system and that's where EXBRL and ADF compel to have such a system which will drill down numbers at very granular level. Currently, most of the banks scrutinize 2014 or 2015 balance sheet, their IT spends are highest than the salary cost, and spend on the same will be increasing and increasing.

He briefed about the key performance and key risk indicators of financial reporting. While explaining about the parameters he said that Capital adequacy ratio just cannot go below 10%, that's a trigger that RBI has also put across. In the same way leverage ratio, liquidity ratio, AD ratio Advances to Deposit are also various parameters.

Further he described about the working nature of Indian v/s foreign banks; wherein he pointed that foreign bank usually have to deal with global norms as well as local norm. Globally IFRS system is followed while locally Indian accounting system is followed. Globally advanced approach to Basel is followed while locally standardized approach is perused. So virtually two sets of books two sets of records given have to be maintained, because of which there is lot of duplication of effort. He cited few examples on where he depicted the key differences of how financial reporting may not help risk management.

Therefore in Risk management there is need to have one more financial reporting model to bridge as there are two sets of records. As the data is not being delivered by financial reporting standard, there is a big gap between financial reporting and risk management and therefore there is a strong conflict between both.

Today provisioning is purely based on 2012 guidelines of RBI I.e. once it touches NPA level which is 180 days default. IFRS and global norms are trying to indicate especially from Basel. It has been observed that there are dynamic loss provisioning or expected loss because of which this is under discussion and hopefully should kick off any year, maybe next year from RBI.

He opined that if we move to an advanced approach of Basel III especially in credit risk, there is need to gauge something what is called as a loss given default. There are specific models of loss given default, probability of default and exposure default. Till date about 14 banks have applied to RBI for advanced approach, approvals for which are still in process and of which only 2 or 3 banks have received. None of these models are available in India. And RBI is very clear they don't want global models, they would follow local models. Amongst all the 14 banks there is not a single foreign bank which follow local model because they all have global models. If they deploy local models, they have to create at least 5 to 8 years of data it is going to be a huge job opportunity because banks will have to hire people to create so much of data. But it's not going to help as it won't help for future risk management. He was of the view that, we in India are at the crossroads, although want to move ahead but our financial reporting is not supporting because it is prepared and made in a certain manner which is not neutralized.

Financial reporting only shows as a contagion exposure, whereas a risk manager looks at it as an actual book entry. Financial reporting is nothing but what has happened in the past, whereas risk managers want trend analysis showcasing about the future in order to create management mitigating actions. While explaining about external internal reporting, he said that external reporting is purely what goes to RBI or any other regulators in a standardized and in template format, whereas, internal reporting is done by risk manager who wants some more slicing and dicing of data. So there is a conflict between wants of both internal and external stakeholder. He was of the view that globally regulators are aligning to what the rules are but it's not happening at country level.

Lastly, he concluded by saying that ICAAP which is a culmination of business strategy, risk management and financial reporting is the only three success mantras for bridging the gap of financial reporting and risk management.

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Session III : Innovative Strategies for Funding for SMEs

CHAIRMAN
Mr. R. K. Dubey
CMD, Canara Bank

SPEAKERS

Mr. Rajiv Sabharwal
ED, Retail Banking, Inclusive & Rural Banking and SME & Mid-corporate, ICICI Bank Ltd.

Mr. U. G. Revankar
MD
Shriram Transport Finance Co. Ltd.

***From L-R :** Mr. U. G. Revankar, MD, Shriram Transport Finance Co. Ltd., Mr. R. K. Dubey, Chairman & MD, Canara Bank, Mr. Rajiv Sabharwal, ED, Retail Banking, Inclusive & Rural Banking and SME & Mid-corporate, ICICI Bank Ltd.*

Chairman
Mr. R. K. Dubey, Chairman & MD, Canara Bank

Highlights

- MSME contributes heavily/heftily towards the employment as well as towards the exports percentage of India, estimated at around 78 million people and 40% of total exports respectively.
- Innovation in MSME is the key to its increasing popularity and growth, resulting in wealthy investors investing in the MSMEs.
- Need to indigenously develop a workable business model and an integrated delivery model geared to promote financial inclusion so that there is less differentiation in delivering the services for sustainable economic growth.

Mr. Dubey informed the audience that, MSME sector constitutes an important segment of our national economy as it provides employment to over 78 billion people, 31 million micro, small and medium enterprises constitute about 9% of GDP. Nearly, 45% of the industrial production of the country comes from SME sector while total exports are about 40%. There are 29.8 million enterprises in various industries, 51.8 per cent of which are rural enterprises. MSME sector to the Indian economy is often not fully understood and appreciated. In 2006, this = of SSI was converted to MSME. Even this act seems to have got stale and there is a demand for change in the provisions of the act so as to bring about faster growth in the sector. SMEs are the backbones of the nation's economy and constitute bulk of the vendors and sub-contractors of large manufacturers. Their existence is essential for large industries to remain competitive in the national as well as in the international markets. The growth of MSMEs is necessary for overall growth of the economy and upliftment of the poor in India. Earlier there was traditional financing for micro, small and medium industry. But since last five years not only both public and private sector are financing this sector but also MFI, NBFCs, SBFCs, Venture capitalist play a catalyst role in providing finance. Currently, Venture capital is emerging as an important source of finance for MSMEs and it needs to be capitalized upon. In this context he added that angel investors could contribute in alleviating the financing concerns of the MSME sector. If there are innovative projects having huge potential then the wealthy investors, take up stake in those projects and help financing it. The recent source has been the listing at the BSE SME platform. Most of the SME are coping in order to list themselves on this platform.

Although, product interest pricing ratio by banks is not a big thing because margins levied by all banks are low or nearby similar and it has narrowed down substantially, only differentiation is how fast it can be delivered to the concerned party. Therefore there is need to indigenously develop a workable business model and an integrated delivery model geared to promote financial inclusion so that there is less differentiation as these will in turn sustainable economic growth.

Speakers

Mr. Rajiv Sabharwal, Executive Director, Retail Banking, Inclusive & Rural Banking and SME & Mid-corporate, ICICI Bank Ltd.

Highlights

- Financing of SME is a challenge especially for start-up companies even after the existence of SMEs contribute significantly towards the GDP and employment of the country.

- The Indian SMEs are leading majority of the innovations and due to this fact they are contributing extensively towards the Forex, NBFC, Venture Capital, etc.

- Banking sector has extended its facilities like foreign currency loans, hedging solutions, etc. so as to strengthen the SMEs hold in growing further.

- There is no competition between banks in pricing the credit extended to these sectors though they compete on the technological front.
- Digitalization of banking sector plus reduction in the documentation has added further to the growth of this sector.

Mr. Sabharwal said that, SMEs have been significant contributors to growth with respect to attributes such as employment, GDP, real-estate etc. the surprising fact is that CASA and deposits contribution from SMEs have been huge i.e 53.1% of Savings, 54.2% of Current account, 41.7% of Term deposit, 16.7% of Asset Book and even significant contribution to Forex. All innovations which happen at a larger scale are from SME sector rather from mega sectors. If SMEs were not doing great job, then contribution of SMEs in getting new ideas and enhancing the culture of entrepreneurship wouldn't be outshined. SME's contribute to economic growth through, competitive products & services, innovation, entrepreneurship, wealth creation and urbanization.

According to Mr. Sabharwal, The SME sector is the source of most ideas, innovations and culture of entrepreneurship in this country. It needs to have easier access to raise money. SME sector contribution to the whole economy is huge but the key challenges they go through is financing. They also have challenges like Lack of investment capital in start-up ventures, Limited access to Technology, Restricted by high initial costs and low scale of operations, Challenges in scaling up operations, Limited investment in middle/senior management, thin secondary market, Limited access to finance & timely credit, Insufficient availability of credit information etc. Although there are Venture Funds, NBFCs etc but the amount of funding which probably Indian SMEs need to the core level is just not available, because of which most of the new SMEs closedown within few year. As SME grows there is a new challenge that is coming up but is sorted easily as compared to that was five years back.

Understanding the need of MSMEs the evolving sector, like e-commerce, SME units into Exports & Imports with requirements for foreign currency loans and hedging solutions etc banking sector has extended its facilities to strengthen it. There are innovative solutions like loans for New merchant establishments with assessment based on card receivables, Customised solutions for new age industries such as e-commerce, Collateral free loans under CGTMSE, Unsecured loans for traders, Structured Trade Products for Exporters / Importers for their specific needs – Tie up with Exim Banks, EBN or Foreign currency term loans. Given that profit margins have become wafer thin, price differentiation is no longer a game changer in the sector. It is now the proactive adoption of technology that makes all the difference to the viability of SMEs. He was of the view that innovation solution can be leveraged through technology i.e. nowadays none of the banks compete on pricing as the margins for all are nearby same; the only competition is in usage of technology and innovation in New Products & Process in order to create solutions which can give better service to their customers. Few of the innovative solutions that are currently in the market are usage of digital channels such as TAB for information flow and faster turnaround time online platforms such as internet banking for greater efficiencies in cash flow management, use of SFMS between Banks as an efficient communication platform to facilitate trade etc are also encouraged.

Lastly he concluded by saying that the focus of banks should be on the Use of credit scoring models to eliminate bias, Cluster based approach, Usage of new age channels like mobile, facebook etc. for client acquisition, transactions, E-Forums and online platforms for exchange of information.

Mr. U. G. Revankar, MD, Shriram Transport Finance Co. Ltd.

Highlights

- Majority of the country's population are still unreached by the financial services and are still dependent on traditional money lenders for financial needs.
- Mr. Revankar highlighted the Business Correspondent Model and the slowness in the response of it ultimately resulting to move towards an alternative business model.
- Factors affecting access of formal financial services are - non-availability of legal identity, limited literacy, lack of awareness, etc resulting to discounting cheques with NBFCs, etc.
- NBFC Sector is growing but what the numbers show is that NBFC corporates which account for less than 5% of the total NBFCs have more than 75% of total assets of NBFC sector. On global level, India performs rather poorly on NBFCs contribution to GDP at around 12%, where as the global average is 52% of GDP.
- NBFCs and SBFCs can play an important role in penetrating the Indian Market by tapping the need of the hour services like - customization of products, etc.
- Advantage and growth prospect for SBFCs is that SBFCs have upper hand in banking services as they act in a complimentary and supplementary manner to bank in serving the low income families and the SMEs.
- Limit growth of NBFC Sector by reducing the availability of resources and the currently accepted deposits are not consistent with the RBI set norm that the deposits should be fully covered by the NBFCs assets.
- Mention of Nachiket Mor Committee Report which is in favour of NBFCs was made and also the mention of how information technology is necessary for Financial Inclusion leading to social and business obligations.

Mr. Revankar expressed his thoughts on the topic wherein he cited statistics from IFC World Bank report of 2012 to understand the stand on SMEs. He said that financial inclusion forms the basis for Inclusive growth of any country. In order to expand the necessities of remote areas, the resources must be provided. The flow of money to the unbanked areas can attract other industries which would lead to the growth of area in a sustainable manner.

Mr. Revankar was of the view that although there is liberalisation, financial services are unreached to the majority of Indians and even now the frequently used source of loan is moneylender or Pawn Broker. Only 50% of Indian households do not have any banking service – either savings or credit. According to the findings of World Bank Global Findex Survey – (2012) only 35 %of Indian adults have access to formal bank account and nearly 8% are borrowed formally in the last 12 months. Only 2 % of adult population used bank accounts to receive money (remittances) from members of family living elsewhere & 4 % received payments from the Government. Thus, the penetration of banking is so low that RBI is on the verge to counter it.

He then highlighted on Business Correspondent Model, wherein he said that The RBI issued guidelines on BC's in January 2006 and the review of BC model was done in mid-2009. The initial response was on BC'S was very meagre, but as of June 2012, RBI data shows that the number of BCs established had risen sharply to 1, 20,000. The number of no-frill savings accounts (basic savings account without any minimum balance stipulation etc) also rose from 70 million to 145 million in that period. Despite these criteria there was rise in the number of BCs and in the number of basic savings accounts, the monetary characteristics of these accounts do not promise much business as the total amount mobilized through the 145 million basic savings deposit accounts was only Rs.12,000 crore as of June 2012 i.e. An average balance of just around Rs.350 per savings account. Of these 145 million accounts, 3 million had a credit / overdraft facility with total outstanding of Rs.120 core. As this particular model has not really succeeded, the solution was to move towards Alternative Business Model.

In Mr. Revankar's view, factors affecting access to formal financial services are non availability of legal identity, limited literacy, level of income, terms and conditions of banks, complicated procedures, psychological and cultural barriers, place of living, and lack of awareness etc. Because of which most of them end up normally discounting cheque with some entities like NBFCs. As NBFCs by their incorporation have clear visibility to develop a section of society like Asset Finance companies provide the resources for development in the sector like housing, commercial vehicle, construction equipment's, gold etc. Infrastructure Finance companies are focused at developing the overall infrastructure of the country like roads, bridges, railways, air traffic etc. Loan Companies help by providing loans to various sections of society and at various levels. Micro Finance companies provide resources to rural population, SHGs etc. Investment companies help other organizations to flourish by providing them resources in time and thereby contributing to the development of society as a whole.

As most of the NBFCs want to expand largely in rural areas and increase their share of business to diversify the risks involved with dealing with rural population. They try to create their own market, develop their own competencies, flexibility, offer customized services etc. but due to their rapid growth the current structure of NBFC Sector (excluding the Housing Finance Companies) is such that NBFC Corporate account for less than 5% of the total NBFC's by number but have more than 75% of the total Assets of the NBFC sector of Rs. 10,000 Billion. SBFC's (SMALL BUSINESS FINANCE COMPANY'S)/ENTITIES play a very significant role in promoting financial Inclusion account. Nearly 85% of the total NBFCs have only 15% of the total Assets in the NBFC sector. Most of the SBFC are very small but there are a few large pan India Organizations such as Shriram Finance, Mahindra Finance, Bajaj Finance, etc. The remaining 10% NBFCs are MFI Sector, Gold Loan, etc. By Global Standards NBFC sector in India is rather small around 12% of GDP as against a global average of 52%. It is clear for the above that the SBFC sector which is critical to Financial Inclusion is rather small and only One Sixth of the NBFC-Corporate.

He expressed his views on shadow banking and its impact on economic growth. One of the Research report recommends that a contraction in shadow banking can have notable negative impacts on economic growth. While a study by economists at the International Monetary Fund 2012 found that on average, GDP growth decreases by 0.4 percentage points for every 1 per cent decline in private credit.

According to him, NBFCs and SBFCs as a part of banking system in India can play an important role in deepening the penetration of services. He highlighted few of them i.e. Enhanced risk Taking Capabilities, Flexibility in Underwriting, Flexibility in Documentation, thereby reaching unbanked population Customized product designing and Presence in niche segment, knowledge and ability to handhold the customer is the need of the hour.

Further he revealed the limitations of banks, why are banks under severe criticism for not serving their customers well, taking excessive high ticket risks and for high levels of employee compensation. He elaborated on the advantages and disadvantages of Banks and SBFCs and sated that SBFCs are rising at a faster level as they act in a complimentary and supplementary manner to Banks in serving low income families and SMEs. He cited an example of STFC, Shriram Transport Finance Company Ltd. in order to explain Channel for Financial Product Delivery.

He concluded by focusing on the regulatory policy framework, where he depicted that to limit the growth of NBFC sector by reducing availability of resources available to it. The number of Deposit Taking NBFC's has come down from 1420 to 310 in the past decade and such NBFCs have only 0.06% of Bank Deposits though NBFC Sector extends around 15% of Bank Loans. Acceptance of deposits by NBFC's has also been gradually reduced over the years. Currently it is at a maximum of 4 times the Net Owned Funds. The Thorat Committee has even proposed reducing deposit limit from 4 times Net Owned Funds to 2.5 times. This is in spite of RBI mandating adequate safeguards in case of deposits, including having a requirement that deposits should be fully covered by a charge on the NBFC's assets and regulating the overall borrowing powers of NBFCs. Make no distinction in Regulations governing SBFC's promoting Financial Inclusion and NBFC-Corporate which play no role in Financial Inclusion. Only NBFC's serving Infrastructure section within NBFC-Corporate have been given additional support such as ECB financing. Capital requirements for NBFC's have been progressively increased and are currently at 15%, out of which Tier I is at 7.5%. It is proposed by RBI to increase the Tier I capital requirements from 7.5% to 10%. This will further reduce the ability of SBFCs to provide credit.

He highlighted the Nachiket Mor Committee Recommendations that supported NBFCs and explained how Information Technology is necessary for Financial Inclusion and this will lead to social and business obligation.

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Valedictory Session

From L-R : *Mr. Chandan Bhattacharya, Chairman, Finance and Banking Committee, IMC & Former MD, State Bank of India, Mr. R. N. Dhoot, Member of Parliament, Rajya Sabha, Mr. Prabodh Thakker, President-elect, IMC, Mr. R. Gandhi, Deputy Governor, Reserve Bank of India, Mr. Shailesh Vaidya, President, IMC, Mr. Mahesh Thakkar, Co-Chairman, Finance and Banking Committee, IMC*

Welcome Address

Mr. Shailesh Vaidya

President, IMC

Mr. Vaidya was happy to have an august assembly of distinguished experts and professionals in banking and finance drawn from the best talent all over the country. He extended a special welcome to Mr. R. Gandhi, Deputy Governor, Reserve Bank of India, who spared his valuable time to grace this event.

President acquainted the audience by saying that indeed the Indian financial system has come a long way. However, the challenge of risk management was not always recognized effectively. The importance of financial inclusion can hardly be overestimated. Unfortunately, in our country there's a gap between what is desired and the ground realities. In this regard we have heard some of the problems and issues as well as some solutions pertaining to our financial system. He was of the view that, finance and banking sector has a challenging future ahead which will need to be addressed keeping an eye on social and distributive justice. We did encounter some difficult and upsetting situations but the quality leadership provided by the Reserve Bank of India has ensured that our economy was not affected by recent international financial turmoil to the extent so many other economies were.

Mr. Vaidya then thanked all the dignitaries, sponsors, and delegates for gracing and supporting the occasion. He urged the participants to share their thoughts and vision with IMC based on the deliberations in the Seminar and assured them that the Chamber will take them up with appropriate authorities and at appropriate levels.

Introductory Remarks

Mr. Chandan Bhattacharya

Former MD, State Bank of India &
Chairman, Finance and Banking Committee, IMC

Mr. Chandan Bhattacharya, Chairman, Finance and Banking Committee, stated that we were very fortunate to have in our midst, Mr. R. Gandhi, Deputy Governor, Reserve Bank of India at the valedictory Session.

He briefed about the entire gamut of issues that were discussed by eminent speakers and panel of experts at the Seminar wherein he reiterated that Mr. Arundhati Bhattacharya, Chairman, SBI, and Mr. Rajkumar Dhoot, Member of Parliament focused on risk management in Indian banks because Indian banks are involved not only in globalization but also in financial inclusion, and the various spectrum of financial inclusion and risk management.

Thereafter, in business session there was discussion on financial inclusion, i.e. how the banks are going about it, what are the challenges, how they are hoping to achieve financial inclusion within the various mile posts and timeframe.

The second session focused on Financial Reporting & Risk Management from Institute of Chartered Accountants, where financial management, financial statement, disclosures and risk management through disclosures were discussed.

The last session focal point was innovative tools for funding of SMEs where unique thoughts and glimpses of the banking fraternity with regard to SME funding were showcased.

Mr. Bhattacharya expressed his sincere thanks to Mr. R. Gandhi, for gracing the occasion and said that his inspiring address will serve as a guide for all the players on the Indian financial scene.

Valedictory Address

Mr. R. Gandhi

Deputy Governor, Reserve Bank of India

- *Difficulty in inclusion of G6 proposals particularly due to capital surcharges, contingent capital etc; tickling* for cross-border supervision and resolutions in view of this higher complexity, connectedness and riskiness.

- To safeguard against the disruption to the economy and nationalize the new standards a transaction period of 6 years has been envisioned.

- RBI has adopted risk management via limiting the system risk originating from pro-cyclicality and interconnectedness dimensions.

- RBI counter cyclical measure (in 2014) of hitting specific sector by increasing risk weight and provision of ratios during the booming period of the respective sectors.

- Financial intermediation is the most important function of banks. Unfortunately, the connection between the banking sector and the economy is still not properly understood.

- The regulatory limits on exposure to capital market saved the domestic economy from adverse shocks from the height of the crisis.

- The Basel III guidelines have been out in place by RBI and the regulations and the necessary rules have been given to the banks. Like Basel II, Basel III regulations will also be set in phases and full implementation would be done by March 2019.

- Banks have made significant progress towards changing their risk governance framework in the wake of the financial crisis but the Deputy Governor believes that there is still space for improvement and their organization need to do more to instil a strong risk culture underscoring the need for a sustained effort over a long period of time.

- Risk management is essentially the management of risk and return, and it has taken on highly complex hues today. Risk management needs to ensure that banks' hold adequate capital reserves at all times.

- Even though the asset quality of banks' is currently not very healthy, there is hope for the future given the proactive steps that the RBI is taking to address the issue.

- The current capital base and the liquidity position are also quite comfortably placed as per the Basel III guidelines.

- Asset quality of the Indian banking system has improved significantly since the introduction of prudential norms, CBR mechanism, credit information companies.

- Currently the alignment of the risk management and profitability management objectives is not so much in focus.

- A careful analysis and comparison of income and expenses would provide the bank an in-depth understanding of its business focus, structure and stability of profit and serves as guiding principles for rebalancing and restructuring their balance sheet which in turn can help banks to derive optimum earnings, rationalized cost and expenses but also to initiate changes in to diversify its business design model in alignment with industry to the current and profitable market practices in the way ahead.

- Risk appetite and risk tolerance levels need to be clearly defined and banks' must operate within those boundaries. The efforts of banks' also need to be supplemented with a suitable technological platform.

- Even though much progress has been made pertaining to risk management and financial inclusion, we still have a long way to go. Unfortunately, a great deal of the quality and reliability of the data available today is suspect. Thus, overdependence on quantitative models is undesirable.

Shri Shailesh Vaidya, Chairman, Indian Merchants' Chamber (IMC), Shri Chandan Bhattacharya, Chairman, Finance and Banking Committee, IMC and delegates to this IMC National Seminar, a very warm good evening! It is an honour to be here today to deliver the valedictory address of this National Seminar organised by IMC. The Seminar provides an opportunity to consider the developments in the banking risk management, assess the recent experience in this space and work on the way ahead.

Why risk management assumes greater significance in banks?

Most business activities and operations are driven by considerations of returns or profitability. However the search for returns exposes the businesses to risks. Also risks escalate and multiply with returns sought – banks are no different; only the element of riskiness in the banks' business and operations is higher as they not only carry out their operations with borrowed money and with high leverage but also attempt to provide a vast range of financial services.

Banks perform multifarious functions. However financial intermediation and maturity transformation are by far the most significant activities performed by banks. Banks essentially have a liquid liability profile, as against an illiquid asset profile, which makes them vulnerable to runs and in this process alone, they generate or are exposed to different types of risks. Credit, market and operational risks are the three primary risks that have a substantial bearing on the performance of banks. There are a number of other types of risks, emanating both from within and without that the banks are exposed to in their day to day functioning.

Further, banks are intricately linked to the various segments in the financial sector and the economy. Problems emanating from the banking sector can cause wide spread destabilization to the segments to which it is, directly or indirectly linked.

As the banks perform this role of intermediation in fiduciary capacity, ensuring a balance between the risks and returns assumes significance and the effort towards achieving this balance can be referred to as risk management. The various financial crisis of the past brought to the fore the importance of robust risk management practices in financial institutions including banks. Progressive technological developments and advanced modelling techniques have, however, rendered risk management a highly complex and sophisticated discipline lately.

What is Risk Management?

Risk management can be defined as a function of risk identification, measurement, monitoring and reporting to ensure that the returns are appropriate to the risk undertaken and the risks undertaken are commensurate with the risk appetite and risk tolerance. Risk management has to ensure that the bank holds adequate capital and reserves to make sure that its solvency and stability are not threatened, both in the short and the long run.

The capital measurement standards commonly known as the Basel Accords I and II published in 1988 and 2006 respectively, had already emphasized the importance of risk management by linking progressively the banks' capital adequacy to the risk weighted assets (RWA) on account of the Credit and RWA equivalent for Market and Operational risks. Based on the principle of proportionality, Basel II further entails progressive advancement to sophisticated but complex risk measurement and management approaches to credit, market and operational risks depending on the size, sophistication and complexity of the respective banks. In addition, Pillar 2 and Pillar 3 of Basel II emphasize the need for developing better risk management techniques in monitoring and managing risks not adequately covered or quantifiable under Pillar 1 and increased disclosure requirements.

Recent global initiatives for strengthening risk management practices in banks

As a response to the global financial crisis, a package of reforms collectively referred to as Basel III has been unleashed as part of the global regulatory effort to enhance the soundness and resilience of the banking system. These reforms focus on capital, liquidity, leverage and macro prudential aspects of banking risk management. Basel III, on one hand, attempts to improve the quality and quantity of loss absorbing capital that a bank holds and aims at increasing the risk coverage of the capital framework, in particular for trading activities, securitisations exposures to off-balance sheet vehicles and counterparty credit exposures arising out of derivatives. On the other hand, it has devised regulation for dealing with systemic risk by prescribing countercyclical capital requirement, to contain pro-cyclicality and a framework for G-SIBs and D-SIBs has also been laid down to manage risks arising from inter-connectedness.

The reforms require banks to raise the amount of common equity to 4.5% of assets by January 2019 from the 2% requirement under Basel II. The new minimum for Tier 1 capital has now been raised to 6%. The innovative elements of the Basel III requirements include additional layers of capital in form of the Capital Conservation Buffer and Countercyclical Capital Buffer, minimum Liquidity requirements in the form of short term Liquidity Coverage Ratio (LCR) and long term structural Net Stable Funding Ratio (NSFR), a leverage ratio as a back-stop to the risk based capital framework and additional proposals for the Global Systemically Important Banks (G-SIBs). The Capital Conservation Buffer is prescribed as 2.5% of common equity in addition to the 4.5% minimum requirement bringing the total common equity requirements to 7% which if breached would restrict pay-outs of earnings to help protect the minimum common equity requirement. The capital buffer can be used to absorb losses during periods of financial and economic stress. The countercyclical capital buffer entails common equity or other fully loss absorbing capital in the range of 0% – 2.5% to be implemented according to national circumstances and kicks in when credit to GDP ratio deviates significantly from the trend. The paradigm changing approach to risk management under Basel III is introducing macro-prudential regulations to deal with systemic risk. The crisis brought home the point that even while individual financial institutions are strong, when each of them act to preserve its own interests, these actions could lead to instability of the system.

An internationally harmonised Leverage Ratio has been introduced as a simple back-stop facility to compliment the risk based capital framework in order to contain build-up of excessive leverage in the system and comprises of 3% loss absorbing capital relative to all of a bank's assets, including off-balance sheet assets without risk weighting. Certain enhancements have also been introduced to the Basel II framework by raising standards for the supervisory review process and public disclosures under Pillar 2 and 3, together with additional guidance in the areas of sound valuation practices, stress testing, liquidity risk management, corporate governance and compensation. The liquidity requirements include a minimum liquidity coverage ratio (LCR) intended to provide enough cash to cover funding needs over a 30-day period of stress. As such under LCR, the banks will be required to hold a buffer of high-quality liquid assets sufficient to deal with cash outflows encountered in acute short-term stress scenario. At the long-term spectrum, the net stable funding ratio (NSFR) is intended to address maturity mismatches over the entire balance sheet for upto one year and provides incentives for banks to use stable sources to fund their activities. The proposals for the G-SIBS are tougher, to include combinations of capital surcharges, contingent capital and bail-in debt as also strengthened arrangements for cross border supervision and resolution in view of the higher complexity, connectedness and riskiness. Keeping in view the need to safeguard against any disruption to the recovery of the real economy and allow national jurisdictions sufficient time to translate the new standards into national legislation, a transition phase of six years from 1 January 2013 to 1 January 2019 has been envisioned for full implementation.

Recent developments and emerging regulatory scenario in India for improving risk management in banks

The Reserve Bank too has adopted a proactive and calibrated approach towards demanding and facilitating robust risk management efforts by the banks. Reserve Bank has been adopting a considered approach of limiting the systemic risk originating from both the pro-cyclicality as well as interconnectedness dimensions. For example, countercyclical measures were adopted as early as 2004 to stall heating up of certain specific sectors by increasing the risk weights and provisioning ratios for sensitive sectors such as capital market, housing, commercial real estate during the period when the boom was building up. Several measures were taken to reduce the inter-connectedness among banks on the one hand and between banks and NBFCs on the other, to address the cross-sectional dimension of systemic risk and regulatory limits have been placed on exposures to capital market exposures. Such macro-prudential approach, which was not widely prevalent, then, saved the domestic economy from the adverse shocks during the height of the crisis.

The road-map for the implementation of Basel II in India was in phases and was designed to suit the country-specific conditions.

BASLE III

Implementation of Basel III Capital Regulations has commenced in India from April 1, 2013; and it will also be in phases, and would be fully implemented as on March 31, 2019 close to the internationally agreed Basel III transitional arrangement.

i. As against the minimum Tier 1 leverage ratio of 3 per cent proposed by the Basel Committee of Banking Supervision (Basel Committee) during the parallel run period beginning from January 1, 2013 to January 1, 2017, the Reserve bank has prescribed a minimum Tier 1 leverage ratio of 4.5 per cent during the parallel run period. The leverage ratio framework is being revised in line with the recent proposals of the Basel Committee.

ii. The Reserve Bank has issued enhanced Pillar 3 disclosure requirements effective from quarter ended September 30, 2013 to improve transparency of regulatory capital and to enhance market discipline.

iii. Comprehensive liquidity risk management (LRM) guidelines were issued on November 7, 2012. Based on the recent guidelines published by the Basel Committee on Liquidity Coverage Ratio (LCR) in January 2013, the Reserve Bank is in the process of finalizing its guidelines on LCR which are expected to be issued shortly.

iv. The guidelines issued by the Reserve Bank on July 2, 2013 (effective January 1, 2014) on capital requirements for bank exposures to CCPs provide incentives for banks to clear standardised OTC derivatives contracts through qualified central counterparties.

v. While none of the Indian banks figure in the list of G-SIBs, domestic SIBs have to be identified. A draft framework for dealing with the D-SIBs has been published on December 2, 2013. It requires that additional common equity capital requirement applicable to a D-SIB with highest systemic importance will be 0.8% of RWAs.

vi. The Reserve Bank revised its guidelines on securitisation in May 2012 and introduced norms on minimum holding period, minimum retention ratio, and standards for due diligence to align the interest of the originators and investors, and induce 'Skin in the Game' concept to discourage 'Originate to Distribute' models.

vii. Un-hedged foreign currency exposures (UFCE) of the corporates are a cause of concern as they pose risk to the individual corporates as also to the entire financial system. Guidelines on risk management of un-hedged exposures as also the methodology to be followed by banks for computing incremental provisioning and capital requirements for exposure to corporates having un-hedged foreign currency exposures have since been introduced.

viii. As a prudential measure aimed at avoiding concentration of credit risk and large losses due to Intra-Group Transactions and Exposures (ITEs), the Reserve Bank of India has prescribed regulatory guidelines on February 11, 2014, putting in place both quantitative limits for the financial Intra-Group Transactions and Exposures and prudential measures for the non-financial ITEs.

ix. As the growing volume of non-performing assets along with restructured assets was becoming a major cause for concern for the financial as well as the real sector, a framework for revitalizing distressed assets in the economy has been implemented with effect from April 1, 2014. The Framework lays down guidelines for early recognition of financial distress, information sharing among lenders and co-ordinate steps for prompt resolution and fair recovery for lenders. It envisages centralised reporting and dissemination of information on large credits, early *formation of lenders' forums and incentives* for lenders and borrowers to agree on resolution and disincentives for both in the event of failure to act in a timely way. Improvements in the current restructuring process such as an independent evaluation of large value restructuring with a focus on viability and fair sharing of gains and losses between promoters and creditors have been mandated. Finally, a more liberal regulatory treatment of distressed asset sales, particularly to asset reconstruction companies, has been provided. It proposes to bring non-bank lenders also under its ambit for enhanced effectiveness.

x. The Basel Committee issued the Principles for Sound Stress Testing Practices and Supervision in May 2009. In tune with these principles, the extant Reserve Bank guidelines on stress testing have been updated. Stress testing which is based on forward looking approach is expected to provide a complimentary and independent risk perspective to other risk management tools such as value-at-risk (VaR) and economic capital and compliment risk management approaches that are based on complex, quantitative models using backward looking data and estimated statistical relationships.

xi. With the objective of building up a buffer of capital which can be used to achieve the broader macro-prudential goal of restricting the banking sector from indiscriminate lending in the periods of excess credit growth that have often been associated with the building up of system-wide risk, the Reserve Bank has proposed to create a Countercyclical Capital Buffer (CCCB) framework for banks in India. The proposed draft CCCB framework in India is based upon the credit-to-GDP gap in conjunction with other indicators like Gross Non-Performing Assets (GNPA) growth. The CCCB shall increase linearly from 0 to 2.5 per cent of the risk weighted assets (RWA) of the bank based on the position of gap between 3 percentage points and 15 percentage points.

xii. The Reserve Bank is keen to introduce a counter cyclical provisioning approach with the objective of building up provisioning buffer for the banking system when the banks in general are making profits so that this can be used to absorb losses in case of downturn. A discussion paper on Introduction of Dynamic Loan Loss Provisioning Framework for Banks in India has been put on the RBI website on March 30, 2012. A comprehensive forward looking provisioning framework based on data collected from select banks in respect of certain segments and system–wide data is being developed. The new approach would smoothen the impact of incurred losses on the Profit and Loss Account through the cycle and thereby facilitate continued lending by banks during downturns.

xiii. The Reserve Bank has from time to time also issued regulatory guidelines on other areas such as Corporate Governance, Fit & Proper, Know Your Customer/Anti Money Laundering, Credit Information Sharing, Customer Services in addition to specific guidance on credit, market and operational risk management etc., to strengthen the over-all risk management culture in Indian banks.

Recent risk management in banks

A survey on banking risk management, conducted under the aegis of the Institute of International Finance, sees a renewed focus on risk culture. It reports that risk culture is now at centre stage and banks have made significant progress toward changing their risk governance frameworks in the wake of the financial crisis. Board risk committees are nearly universal, and members have received appropriate training in risk management. The role of the chief risk officer has broadened, while its seniority and status have been enhanced. They now report either to the chief executive officer or jointly to the CEO and risk committee. However, the survey laments that the industry continues to wrestle with the process of embedding risk culture beyond the boardroom and into business units while ensuring adequate risk transparency.

Many respondents cited the balance between a sales-driven front-office culture and a risk-focused culture at higher levels as their top organizational challenge; they also note lack of systems and data. They believe their organizations need to do more to instil a strong risk culture, underscoring the need for a sustained effort over a long period of time.

Risk appetite continues to be an essential part of risk governance, but the industry continues to be challenged to embed risk appetite into business decisions. The financial services industry recognized during the financial crisis that boards needed to change focus from share price and profitability to the risks entailed in their strategies. Also, chief risk officers needed to be empowered to create cultural change within their organizations.

With these shifts well underway, senior risk executives are focused on moving reputation and operational risk higher up the agenda. However, banks are still struggling to ensure that specific business decisions are consistent with risk appetite and are putting new programs in place to achieve this.

One of the challenges that banks face in developing comprehensive risk measurement models are the scarcity of available historical and time series loss data and the quality, completeness and reliability of the data available. Effective risk management requires specialization and technical expertise as also independent and dedicated risk management function. While efforts are on in this direction, the HR policies and limited suitable number of the skilled human resources present myriad challenges in fully achieving this objective. Attrition and ability to retain the skilled personnel adds to the challenge.

Present experience in risk management in Indian banks

The regulatory initiatives as also the banks' individual efforts in this direction have certainly improved the risk management standards in Indian banks in the last few years. Since the initiation of structural reforms in the Indian banking sector in 1991, the reach and business volumes of Indian banks have increased many fold; the operations have grown and assumed higher degree of sophistication. The Indian banks' current capital base and liquidity position are broadly comfortable, as a starting point, vis-à-vis the Basel III guidelines. Both the capital to risk weighted assets ratio (CRAR) and the core CRAR of Indian banks, respectively stood at 10.42 per cent and 9.24 per cent respectively as on March 31, 1997 and have consistently remained well above the regulatory requirement of 9 per cent and 6 per cent, respectively under Basel II. The CRAR and core CRAR were at 13.88 per cent and 9.7 per cent respectively as at March 31, 2013. Indian banks, thus, start from a position of strength in the process of transition to Basel III regime. Many challenges, however, still lie ahead and I shall touch upon these in a little while.

Asset quality is an important parameter to measure the health of the banks and concomitant with asset quality is the provisioning coverage that banks hold against stressed assets. Asset quality of the Indian banking system had improved significantly since introduction of prudential norms, SARFAESI Act, CDR Mechanism, Credit Information Companies, etc. The GNPAs ratio had steadily declined from 15.7 per cent in 1996-97 to 2.35 percent in 2010-11. However, as fallout of the global financial crisis and the consequent headwinds from many advanced nations in the west, the GNPAs have risen to 2.94 per cent as on March 2012 and further to 3.42 per cent as at the end of March 2013. As per the provisional data, as on December 2013, the GNPA ratio was at 4.47 per cent. The ratio of restructured standard advances to gross advances stood at 5.8 per cent at end-March 2013 adding to the total stress.

All Indian banks, including foreign banks in India, migrated to the standardized approaches of Basel II by March 31, 2009 in two phases. Large sized Indian banks and banks with international presence have been encouraged to adopt the Basel II advanced approaches for computation of capital for credit, market and operational risk. Out of the 14 banks that submitted applications for migration to the Internal Rating Based approach for credit risk, seven have been given approval for parallel run. Under operational risk, parallel run has been approved for two banks for The Standardized Approach (TSA) out of the 13 banks that applied. Ten banks have so far conveyed their intent for migration to the Advanced Measurement Approach (AMA) of which cases of four large banks which made preliminary submissions in this regard are under different stages of examination. In respect of Market Risk, eight banks have conveyed their intent for migration to the Internal Model Approach.

There is, however, another very significant aspect of the bank operations, just as in any corporate entity, and that is the commercial aspect viz., profitability management. Profitability in banks, as in the corporates, is reflective of the financial well-being, health and robustness of the entity and has a direct bearing on its capital formation ability. On the flip side, if the bank's strategies, business models, planning and operations and risk management are weak, obsolete or outdated or not in tune with the macro-economic environment, the income flowing there from may be low or may end up in losses. Profitability is impacted by the business decisions of the bank, the business model it pursues, quality and type of asset base as also by operational efficiencies and any noteworthy shift in its strategies and policies. The risk profile of a bank can also be gauged from its income and expenditure statement to a great extent. However, currently alignment of the risk management and profitability management objectives is not so much in focus.

Since the profitability or the income and expenditure plans and decisions of the banks are directly connected to the regulatory concerns of capital adequacy and solvency as also the stability and soundness of banks, it is incumbent on the banks and the supervisors to carefully analyse the components of income and expenditure. A careful analysis and comparison of these streams of income and expenses would provide the bank an in-depth understanding of its business focus, structure and stability of profits and serve as the guiding principles for rebalancing and / restructuring its balance sheet. This would enable a bank to not only, derive optimum earnings, rationalize cost and expenses but also to initiate changes in and diversify its business design / model in alignment with the industry or the current and profitable market practices.

The way ahead

Over the years and especially in the wake of the learnings from the global financial crisis, banks have enhanced their efforts in the direction of improving risk management practices as I have enumerated earlier. However, going forward much work still remains.

a. Banks must pay greater attention to the risk governance aspects, wherein the boards must have full understanding of the risks, typical to the respective bank as also full involvement in designing appropriate policies and strategies for the risk management. For this purpose, risk appetite and risk tolerance levels must be clearly defined, keeping in past and forward looking view on likely internal and external risk environment.

b. An independent risk management function headed by a Chief Risk Officer (CRO) with sufficient freedom and stature assumes critical importance. Banks must ensure that the board level risk committees as also the independent challenge function in form of internal and external audit/ reviews are effective in the real sense and have the requisite understanding, resources and wherewithal to perform their responsibility in a meaningful way.

c. Senior management of the banks must play a proactive role. They should communicate the risk management policies, risk appetite and tolerance statement, risk management practices to the operational in-charges at the business units and corporate levels for proper understanding and compliance.

d. These efforts need to be supplemented by a robust Management Information System (MIS) and information technology platform to provide the board and the top management with timely, reliable and complete risk related information on the bank for effective decision making and decisive action taking.

e. 'Embededness' or 'Use Test' which entails use of inputs to and outputs from the quantitative models in enhancing quality risk management and decision making need better encouragement.

f. Over-reliance on quantitative models can grossly under-estimate tail risks and it is necessary to also use expert judgment in dealing with risk estimation and management. Stress tests, as also reverse stress tests and back testing should be gainfully utilized as compliments to model based risk estimation.

g. Before concluding I will like to relay what A.T. Kearney, a reputed international consultant, has got to say about risk management in banks. They believe that the framework for risk management in a bank is fundamentally no different today than it was prior to the credit crunch and recession. However, the risk function lacks certain business acumen, and continues to be considered a handbrake on growth. A.T. Kearney suggests that a return to managing risks - not ignoring them or believing they can be passed off - is the cure. I could not agree more.

Vote of Thanks

Mr. Mahesh Thakkar

Co-Chairman, Finance and Banking Committee, IMC

Mr. Thakkar thanked all the dignitaries for gracing the occasion with their august presence and making this Seminar indeed a unique Seminar.

Mr. Thakkar expressed his gratitude to Mr. R. Gandhi, Deputy Governor, for his insightful address and sharing his views on risk perception and showcasing a roadmap on a regulator's perspective for the banks and NBFCs. He thanked him for putting forward our argument pertaining to debenture reserves to the Ministry of Corporate Affairs which is brought in the rules and regulations from 1st April 2014. He further stated that we at IMC also look forward to your guidelines based on Usha Thorat and Nachiket Mor Committee for NBFC sector as currently new registrations are banned.

He also expressed his gratitude to all the speakers for sharing their passion and expertise in the field of banking and finance which provided valuable insights on the subject and disseminate the same to a large audience.

He also congratulated President Mr. Vaidya, Mr. Prabodh Thakker, President Elect, Mr. Bhattacharya Mr. Sanghvi and his team for organizing this grand event so successfully. He thanked and complimented ICAI for being Seminar partner since last five years.

Finally, he made a special mention of Sponsors, Standard Chartered Bank, State Bank of India, Syndicate Bank, Reliance Capital, Canara Bank, Shri Ram Transport Finance Limited, Union Bank of India, EXIM Bank and Small Industries Development Bank of India (SIDBI). Without their gracious support it would have been impossible to hold this event.

Question & Answer

Q. As per the data the credit defaults are much higher as a financial inclusion initiative in the northern part of India as against that of southern India?

Dr. M. G. Vaidyan: Yes it's very true. We are trying to have linkages, because if all the farmers and poor people go and take more and more loan, then there will be a debt trap. So there is need of linkages and these linkages will come when we are in a position to identify some value chains with a corporate. There are corporates with a lot of social CSR fund allotment, for example, we had entered into a Memorandum of Understanding with Tata Trust where they will do the capacity building go to remote places and they will and seeing what is happening there, we as bankers we will be more encouraged to give a loan where the credit quality is better. If we go and do scattered lending it will not work. So in coming years more things will happen.

Smt Usha Ananthasubramanian: In South generally, there are more women groups that operates. And there is always a peer pressure on women so the recovery is much better. And women are more forthcoming; they take up activities, form groups, and take loans. Whereas in the North it still not that kind of a social, activism amongst women has not happened to the extent it has to be. So recovery rates are better in south.

Q. What is the functional basis of entire banking correspondent model?

Mr. U. G. Revankar: In fact the BCs can only be successful if they are trained properly, with adequate remuneration so that they stay in the job and have credibility. BC is representing the bank in the particular area. So unless his credibility is there people will not part with their money. And in ultra small branch it is a BC who is the face of the bank. Bank manager or officer is supposed to visit once or twice with the laptop. His knowledge, his skills should be developed adequately and by encouraging and paying well. RBI is reporting framework that how banks are sending out rural credit and rural planning interior department which monitor problems of BCs. But when strategic view is taken, the basic issue that emerges is appointment of the right kind of people as BCs, right environment to work in, proper payment, right incentives and this is an ongoing process that banks have to decide on. There is a flexibility that banks have to decide who to appoint and to make the strategic choice. Reputation risk is always there in any new initiative and the only way to deal with it is to ensure that information is flowing quickly and accurately and there is a systematic response to it.

Q. Elaborate on agri input lending as a part of priority sector lending?

Mr. Rajiv Sabharwal In fact when the regulations changed, the definition of direct agri became even narrower. When it became narrow the majority of the funding for direct agri move to funding for seeds, for fertilizers, for commodity, or even land. I think these areas are getting more than bigger share since last two years than the past. I glanced a report which said that if you look at the total asset growth of the whole banking system 50% of the credit growth comes from priority sector. Thus, there is more focus for the priority sector and its going to increase even further.

Q. Teenagers are allowed to open bank account and operate it independently but as there are risks involved in it, largely parents or the bank have to bear it?

Mr. T.K. Srivastava: As a custodian of the money whether it is teenager or adult, the risk is there to safeguard the money with the banks. But education has to be given to those who are coming prospective customers in the teenage to the banks, that how this account to be operated, what precautions they have to see, that responsibility will be also on the bankers. So risk is on both the sides, so legally it is a contract which has to be taken care of within the framework of the law. And if it is misused then this person who is misusing he will be also responsible for this. But as a custodian it's responsible of both parents and banks to educate them.

Smt. Usha Ananthasubramanian: It is one way of inculcating the child, the student into the savings habit. The bank who forges relationship with the teenager might encourage them to connect and go for an education loan, and further a connect when goes for an employment. Thus having a kind of a long term relationship that is been cultivating from the age of 10.

Q. You referred to the quality of the staff required in the banking industry. You said that there would be a huge difference between the qualities of manpower that we have today and that we will need ten years down line. And hence there is a need to develop different type of criteria for the type of people we are going to recruit at the banking operations in future. Can you elaborate on that?

Mr. K. V. Srinivasan : I had actually made that remark in the context of leadership requirements, today versus 10 years later. When you look at what the leaders of 10 years from now will need as their skill sets, it will be very different from what the leaders from today actually need and actually have. Let me give you an example. Leaders of tomorrow need to understand how customers will actually want to transact with the bank, how will they actually make purchase decisions and in that context how will leaders of tomorrow bring together several different disciplines across the entire bank today; risk management, marketing, HR, branches, alternate channels, IT, MIS these are all different departments today in a bank. How do you bring those together to actually deliver value to a customer is a fundamental challenge. Today I could argue that, other than very few banks, nobody is even thinking of this problem. Also I would say that, if you look at us as a country, we are going to get younger as a working age population for the next 20 years, that's well known to everybody. But as we get younger, how will we bank to youth, how will we take advantage of any of the big technology discontinuities which are happening with respect to mobile. But let's imagine a reality with 4G as well as with low cost devices suddenly you have a different way to bank the customers. Do we have the leaders who have the ability to shift from the traditional branch banking model that we have seen for the last 200 years into this new banking model? I am not sure and what this will require is not deterministic outcomes. You cannot predict what will happen when, what you need is leaders who are able to manage change, who are able to anticipate change, who are able to absorb change and who are able to actually navigate that change through their organization. So the premium actually on leading your teams in an era of uncertain environment and I don't mean uncertain from a macro or geopolitical perspective I don't mean all of that is there, all of that remains but more around era of change around customer behaviour, around technology, around how branch banking could evolve or banking could evolve. You need leaders who are able to anticipate and cope with that and that fundamentally is very different from the way banking and the leaders in banking operate today, that was my basic point.

Q. Is there any specific earmarked fund to be funded under CGTMSE Scheme? Why private sector banks are reluctant to do the same?

Mr. Rajiv Sabharwal We has started focusing on CGTSME scheme since last year or 18 months or so. We have seen more business being done in this area. Clearly there is an opportunity to fund the unsecured business, you know, less than 1 crore all of what comes under this we can't take security. We are in fact learning from this experience and creating new products for the unsecured which don't fall within the CGTSME scheme. Because we are realizing that a lot of players at an early stage do not have collateral to offer.

Mr. R.K. Dubey, the private sector banks also have adopted the scheme and in public sector banks a lot of innovation has gone into this scheme. We have a range of products especially customized product, I.e. cluster activity, that upto 1 crore for buying equipments to start a coffee plant small or a trading shop 1 crore. Then Coffee Satkar, Canara Satkar that is for small restaurants, small schools, you know a lot of products are there for different, different segments of activities in public sector banks.

Q. In UK and US, companies are having good reserves as there is uncertainty in the future, are Indian companies also having similar reserves if not why.

Mr. R.K. Dubey: When you talk about reserves you mean the net worth, balance sheet reserves of the companies. Well, in India because of rather low key business sentiment prevailing for the last one or two years, what has been happening is that many companies have put their expansion plans and future investment plans on hold, as a result of which many companies are sitting on cash actually. Cash really is in today and therefore while the performance of the profits of many corporates have suffered in the last one year or so, the fact is that, most of the companies are quite liquid. Therefore in that sense they have the buffer available to meet uncertainties arising in the future. I hope that answers your question.

Q. What are the delinquencies being seen in SME lending?

Mr. R.K. Dubey: In every organization SME lending differs, when we go for score based lending the purpose is to reduce delinquency. If financing is done following to those system delinquencies are generally in the range of 1 to 2% as but in SMEs presently delinquencies are more than 5%. We are trying to reduce it and in the difficult economy delinquencies rise further because the cash flow is a problem; realization of SMEs is taking more time from the larger, manufacturer or the buyers. A lot of innovations are happening when we do finance in score based lending I am hopeful that delinquencies will go down to around less than 2%.

Q. Will RBI remove some of the restrictions on interest cap on microfinance institutions in order to enhance the financial inclusion?

Mr. R. Gandhi: Any entity which accepts public deposits they are nothing but banks. If a microfinance institution wants to accept public deposits then it should apply for a bank license. Once they receive bank license, they are free to accept public deposits and give microfinance products. As non-bank permitting to accept public deposit is risky, that's why Reserve Bank has consistent policy that only fully regulated banks will be allowed to take public deposits. The microfinance regulatory bill is still under consideration in parliament.

Q. Do you think there should be some convergence in capital charge based on the external rating, and an internal rating for the risk pricing, so there is no conflict between the objectives?

Mr. R. Gandhi: Currently banks are into learning process. Until and unless they make their internal rating models perfect they cannot make that as the base for capital charges because that is questionable. They won't accept it because internal rating models if they have built it must be bettered and it has to be approved by RBI. So until that time they cannot use it for capital charges. So we don't see it as a conflict between the objectives as we see it as a step towards the convergence.

Glimpses of the Seminar

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Online Coverage

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Electronic Coverage

- ET Now – 08 May 2014 – Ms. Arundhati Bhattacharya, Chairman, SBI
- Bloomberg – 08 May 2014 – Ms. Arundhati Bhattacharya, Chairman, SBI
- CNBC – 08 May 2014 – Ms. Arundhati Bhattacharya, Chairman, SBI
- Bloomberg – 09 May 2014 – Mr. R. Gandhi, Deputy Governor, RBI

Mint 09.05.2014

BANKING

RBI to issue rules for on-tap licensing

Mumbai: The Reserve Bank of India (RBI) will issue guidelines on on-tap bank permits and differentiated bank licensing in 2014-15, Bloomberg reported on Thursday, citing central bank deputy governor R. Gandhi. Gandhi was speaking at a banking conference in Mumbai.In April, the central bank had issued in-principle nods to two entities—**IDFC Ltd** and **Bandhan Financial Services Pvt. Ltd**, to start banks, from a list of 25 applicants.

The new rules will offer opportunities for those companies, which failed to get into the final list of RBI and also to fresh applicants to throw their hat in the ring. RBI has been maintaining that it wants

Business Standard 09.05.2014

Norms on niche bank licences this year: RBI

BS REPORTER
Mumbai, 8 May

The Reserve Bank of India (RBI) is expected to announce guidelines on differentiated bank licences, as well as on 'on-tap' licences by the end of this year, R Gandhi, the central bank's deputy governor, has said.

RBI has been considering issuing niche bank licences; it had floated a discussion paper in this regard last year. This is a departure from the current practice of granting universal bank licences alone.

After issuing two in-principle bank licences last month, RBI Governor Raghuram Rajan had said it was possible some of the applicants for licences were more suited to operate differentiated banks, not universal banks.

In April, RBI issued in-principle licences to infrastructure financier IDFC and micro lender Bandhan. These entities will have to start operations within 18 months from the time they secured the licences.

"We will look at the fit and proper (criteria); normal due diligence will be applied and based on that, decisions will be taken. It is not that we are pro or against a particular group or a company"
R GANDHI
Deputy governor, RBI

The regulator will make bank licences available on an 'on-tap' basis; this, too, is a departure from the current 'window' system. In the past, RBI had issued licences to private companies in tranches, following the issuance of norms in this regard 1991 and 2001; for the licences issued last month, the final norms were issued last year.

Gandhi declined to specify when licences would be given to other applicants. He clarified if an entity failed to secure a bank licence this time, it wouldn't have any bearing on its interest to acquire a large stake in an existing bank.

There were media reports L&T Finance, which had failed to secure a licence in the first round, was eyeing a stake in YES Bank.

"They might be rejected a bank licence, but is they come as a shareholder, we will examine that. It won't be a bar just because it has been rejected a (banking) licence," he told reporters without naming L&T Finance. "We will look at the fit and proper (criteria); normal due diligence will be applied and based on that, decisions will be taken. It is not that we are pro or against a particular group or a company."

On the possibility of India Post securing a banking licence, Gandhi said the government was in talks with RBI on the matter.

On concern on the asset quality of banks, Gandhi said he hoped the high incidence of loans turning bad would decline due to steps being taken by banks. "The hope is the market will definitely improve; also, the asset quality will be good because of the various efforts the banks are continuously taking. These should pay off to bring the asset quality back to normal," he said.

Business Standard 09.05.2014

SBI to launch children's savings a/c in 3 months

BS REPORTER
Mumbai, 8 May

Following the Reserve Bank of India (RBI)'s move to allow minors aged more than 10 to open and operate savings bank accounts independently, the State Bank of India (SBI) on Thursday said it would start a special scheme for children soon.

"We do open accounts for children, but we have restrictions on overdrafts. This is because if there is overdraft, we won't be able to realise it. However, there is no restriction on deposits. We are going to launch a special scheme for children in the next three months," SBI Chairman Arundhati Bhattacharya told reporters on the sidelines of a banking seminar organised by the Indian Merchants' Chamber.

SBI wouldn't issue cheque books for such savings bank accounts, she added.

RBI has said for accounts for minors, banks can decide the age criterion and the amount up to which minors can be allowed to transact. It had added banks were free to offer additional facilities such internet banking, ATM (automated teller machine)/debit cards, cheque book facility, etc, subject to the conditions these accounts weren't overdrawn and always had a certain balance.

On RBI's directive to stop charging prepayment penalties on floating-rate loans, Bhattacharya said as SBI didn't have any such charges, there would be no impact on its margins. She added the bank charged foreclosure fees on fixed-rate term loans.

On the priorities before the new government, the SBI chief said it had to contain inflation on a priority basis and take steps to revive the investment cycle. It had to engage with state governments for building consensus on implementing various policies on land acquisition, etc, she added.

On lending models for commercial loans, she said there was a limit to asset-backed lending, as was the case with infrastructure financing. Banks would have to consider experimenting with cash-flow-analysis-based funding to farmers and small and medium enterprises.

DNA 09.05.2014

IMC

RBI to issue guidelines for on-tap banking licences this fiscal

The Reserve Bank of India is likely to issue guidelines for issuance of "on-tap" bank licences in 2014/15, RBI Deputy R Gandhi said, a month after the central bank granted two preliminary licences to set up new banks. Alongside, the RBI is also expected to issue guidelines on differentiated bank licences in the current financial year, Gandhi said.

The Financial Express 09.05.2014

SBI pushing promoters to sell non-core assets of debt-hit cos

fe Bureau
Mumbai, May 8

THE State Bank of India (SBI) is asking promoters of debt-laden companies to sell their non-core assets and bring in more equity as the bank takes aggressive measures to recover loans, chairperson Arundhati Bhattacharya said on Thursday.

"Several promoters are trying to deleverage and we are a part of that process. We have started a dialogue with promoters to tell them they need to bring in more equity and deleverage," said Bhattacharya. She said even though the markets are doing well now, raising fresh equity could be difficult as the rally is not a broad one.

"Therefore, if they have to bring in equity, they have to sell non-core assets. Some promoters are selling core assets as well." She said this was a period of consolidation as sectors like telecom, mining and electricity seem to be coming out of trouble.

Banks have started putting pressure on companies to sell their cash-sinking assets to enhance revenue and profitability. Some companies that have sold their assets recently include Future Group, Videocon Industries, GMR Group and Fortis Healthcare.

Several promoters are trying to de-leverage and we are a part of that process. We have started a dialogue with promoters to tell them they need to bring in more equity and deleverage
Arundhati Bhattacharya, chairman, State Bank of India

Media Coverage

The Hindu Business Line 09.05.2014

Rejected licence applicants can take strategic stake in banks, says RBI official

Move will not be considered back-door entry into sector, says Deputy Governor R Gandhi

OUR BUREAU

Mumbai, May 8

If an entity, whose application to become a bank has been rejected by the RBI, buys a strategic stake in a bank, then it does not amount to backdoor entry into banking, according to a top RBI official.

Any person or entity that wishes to acquire more than five per cent stake in a bank is required to apply to the RBI and it examines such applications on merit, said R Gandhi, the new RBI deputy governor.

When asked if allowing entities to buy a large stake in a bank would amount to back-door entry (especially for the ones that did not make the cut), Gandhi said, "What is a back-door entry? If they want to buy more than 5 per cent stake in a particular bank, then the applications will come. We will apply our mind and do the due diligence.

"They might have been rejected for bank licence but here they are going to come as a shareholder. It won't be a bar just because their licence application was rejected."

According to a recent media report, non-banking finance company L&T Finance Holdings Ltd, which was one of the 25 applicants for new bank licences and which did not make the cut, is in talks with YES Bank to buy out the promoters' stake of about 23 per cent. The NBFC had approached the RBI "informally," according to the report.

R Gandhi speaking at the Indian Merchants' Chamber in Mumbai on Thursday

On-tap licence

Companies that lost out in the current round said that they will examine their future strategy after the RBI comes out with detailed guidelines on handing out "on-tap" and "differentiated" bank licences.

On-tap licensing means any entity intending to start a bank could apply to the RBI at any point as against the current system where they apply when the window opens.

Differentiated bank licences, one of the key recommendations of the Nachiket Mor committee on financial inclusion, refers to licences given to banks specialising in key functions — either lending or borrowing.

Gandhi said that the RBI was working on the guidelines for both types of banks and that it would be put out within the year.

Prepayment penalty

When asked if non-banking finance companies too would be required to waive off prepayment penalty for foreclosure of floating rate loans, he said: "That, we have not yet fully examined. We will examine that. Consumer protection across (banking as well as non-banking) we have to see... we will see."

SBI taps children with special account scheme

PRESS TRUST OF INDIA

Mumbai, May 8

Following the RBI's move to allow minors to open and operate accounts, State Bank of India, the nation's largest lender, on Thursday said it will start a special scheme for children shortly.

"We do open accounts for children, but we have restrictions on overdrafts, since if there is overdraft, we would not be able to realise it. There is no restriction on deposits, though. And we are going to launch a special scheme for children in the next three months," SBI Chairperson Arundhati Bhattacharya told reporters here.

The RBI on Tuesday issued guidelines allowing minors over 10 years to operate bank savings accounts independently and use facilities such as ATMs and cheque books.

The Indian Express 09.05.2014

RBI to bring out on-tap bank licence norms soon

ENS ECONOMIC BUREAU

MUMBAI, MAY 8

THE Reserve Bank of India (RBI) will be coming out with final guidelines on differentiated and "on-tap" bank licences in the current year, RBI Deputy Governor R Gandhi said.

He, however, declined to quantify the time which will be taken for an applicant to land a licence, asking everybody to wait for the final guidelines.

On the possibility of India Post getting into the banking fray, which is among the entities whose application has been kept in abeyance, Gandhi, who is in-charge of banking operations and development, said the government is in discussion with the RBI on it.

After the issue of two licences (IDFC and Bandhan) last month, RBI Governor Raghuram Rajan had said that possibly some of the two dozen applicants were more suited for operating differentiated banks, rather than running universal banks.

Additionally, the central bank is mulling to make licences available "on-tap" rather than making the process a once in a decade as is the practice right now.

Gandhi said an entity's failed attempt at getting a bank licence will not have any bearing on its move to pick up a large shareholding in an existing bank.

"They might be rejected for bank licence, but as a shareholder if they are going to come, we will examine that. It won't be a bar just because its (banking) licence has been rejected," he told reporters on the sidelines of an event here, without naming L&F Finance. Some media reports last month had said L&T Finance, is looking at either picking up promoter's stake in Yes Bank or merging with it.

The Economic Times 09.05.2014

Failed Licence Bid will Not Bar Entities from Buying a Stake in a Bank: RBI

AGENCIES

MUMBAI

An entity's failed attempt at getting a bank licence will not have any bearing on its move to pick up a large share-holding in an existing bank, newly-appointed RBI Deputy Governor R Gandhi said on Thursday. His comments come against the backdrop of reports that L&T Finance is eyeing a significant stake in private sector lender Yes Bank.

Their application for a bank licence might have been rejected, "but as a share-holder, if they are going to come, we will examine that. It won't be a bar just because its (banking) licence application has been rejected", he told reporters on the sidelines of an IMC event here, without naming L&T Finance.

Gandhi, who got promoted as deputy governor last month, was replying to a question on whether an NBFC that may have failed to secure a banking licence in the last round can pick a stake in a bank.

The deputy governor, in-charge of banking operations and development, said anybody looking to have over 5% stake in an existing bank has to get an approval from the Reserve Bank, which will look at the merits of the case. "We will look at the fit and proper (criteria), normal due diligence will be applied and based on that, decisions will be taken. It is not that we are pro or against a particular group or a company," Gandhi said.

Gandhi also said that the RBI is likely to issue guidelines for issuance of "on-tap" bank licences in 2014-15. On-tap licensing means that the RBI window for granting banking licences will be open through the year.

Alongside, the RBI is also expected to issue guidelines on differentiated bank licences in the current financial year, Gandhi said.

The Asian Age 09.05.2014

SBI to offer children's scheme

Mumbai: Following the Reserve Bank's move to allow minors to open and operate accounts, the State Bank of India, the nation's largest lender, on Thursday said it will start a special scheme for children shortly. "We do open accounts for children but we have restrictions on overdrafts as if there is overdraft, we would not be able to realise it. There is no restriction on deposits, though. And we are going to launch a special scheme for children in the next three months," State Bank of India chairperson Arundhati Bhattacharya said. —PTI

Financial Chronicle 09.05.2014

RBI in talks with govt to give bank licence to Dept of Post

Apex bank had set aside DoP application to be decided separately

The Free Press Journal 09.05.2014

RBI: Losing licence bid no bar for stake buy in a bank

Mumbai

An entity's failed attempt at getting a bank licence will not have any bearing on its move to pick up a large share-holding in an existing bank, newly-appointed RBI Deputy Governor R Gandhi said.

His comments come against the backdrop of reports that L&T Finance is eyeing a significant stake in private sector lender Yes Bank.

"They might be rejected for bank licence, but as a share-holder if they are going to come, we will examine that. It won't be a bar just because its (banking) licence has been rejected," he said on the sidelines of an IMC event here, without naming L&F Finance.

Gandhi, who got promoted as Deputy Governor last month, was replying to a question as to whether an NBFC, which might have failed to secure a banking licence in the last round, will be eligible for picking a stake in a bank.

The Deputy Governor, in-charge of banking operations and development, said that anybody looking to have over 5 per cent stake in an existing bank has to get an approval from the Reserve Bank, which will look at the merits of the case.

Some media reports last month had said L&T Finance, the financial services arm of the engineering giant Larsen & Tubro, is looking at either picking up promoter's stake in Yes Bank or merging with it.

Yes bank is cought up in a legal battle with one of its promoters and current MD Rana Kapoor and the other promoter's widow Madu Kapur, over board nominations. L&T Finance had failed to make the cut in the latest round of licencing.

On the possibility of India Post getting into the banking fray, which is among the entities whose application has been kept in abeyance, Gandhi said the government is in discussion with the RBI on it.

IMC IN NEWS

Profile of Speakers

Mr. Shailesh Vaidya, President, IMC

Mr. Shailesh Vaidya is a practising Advocate and Solicitor. He is a partner in Messrs. Kanga and Company, a reputed firm of Advocates & Solicitors, which is a 124 year old law firm in Mumbai.

In his professional capacity, he is a Director in several public limited companies, including Siyaram Silk Mills Limited, Apcotex Industries Limited, etc. He specializes in Property/Real Estate matters. With his over 30 years experience in legal practice he has been involved in several prestigious/landmark property deals. His name and firm reference features in "Guide to the World's Leading Real Estate Lawyers" 7th Edn., published by Legal Media Group, United Kingdom and also in "The Legal 500" and Chambers Asia Pacific Guide to Asia's Commercial Law Firms 2011 to 2013 Issues as leading lawyer firm for Real Estate in Mumbai City. His firm has been recently awarded India Business Law Journal Award for best legal practice in "Construction and Real Estate".

He is presently the Vice-President of Indian Merchants' Chamber. He has been the member of the Managing Committee of the Indian Merchants' Chamber since past seven years. He has also been Past President (centennial year) of the Rotary Club of Bombay Queen City and associated as trustee/ advisor with several educational/social organizations.

Mr. Prabodh Thakker, President-elect, IMC

Mr. Prabodh Thakker is the Founder and Chairman of Aon Global Insurance Brokers Pvt. Ltd, a 74:26 Joint Venture between Global Insurance and Aon Holdings B.V. A third generation insurance entrepreneur, Mr. Thakker has been associated with the Indian and International Insurance and Reinsurance Market for more than three decades. In his previous role, he was MD of Global Insurance Services Pvt. Ltd. and is now on the Board of various Group Companies of Global Insurance.

A veteran of the Insurance Industry Mr. Thakker has vast experience in various verticals of insurance including Aviation, Energy, Construction, Reinsurance, Mega Risks and Risk Management practices.

His excellent entrepreneurial vision has given Aon Global a dominant position in the Indian Insurance Market.

Mr. Thakker has also served IMC as the Chairman of 'Insurance Committee' from the year 2004 till 2012. He is also a current member of the Managing Committee of the Indo-American Chamber of Commerce (IACC), Mumbai and has been associated with various forums.

He holds an Associate Degree (A.I.I.I.) from Insurance Institute of India and is a faculty in various institutions and colleges related to insurance and management. He has passion in social activities on education and employment programmes of the under-privileged youth from the rural sector and is on his way in pursuing this area. He is a keen lover of Cricket and an animal lover. His hobbies includes, reading, listening to Indian classical music, etc.

Ms. Arundhati Bhattacharya, Chairman, State Bank of India

Mrs. Arundhati Bhattacharya has assumed the office as Chairman of State Bank of India on 7th October, 2013. She is the first woman Chairman of the country's largest Bank. She also has the distinction of being the first woman MD of the Bank.

A Post Graduate alumnus from the Jadavpur University, West Bengal, Mrs. Bhattacharya joined SBI in the year 1977 and since then has held various important portfolios. Before taking charge as MD, she was MD & CEO of SBI's investment banking arm, SBI Capital Markets. Earlier, as Dy.MD in SBI, she headed the largest Human Resources Department of the Banking Industry consisting of a work force of over two lakh employees, which includes 65,000 Officers.

In her extensive service in the Bank, she has had the opportunity of working in Metro, Urban and Rural areas across the length and breadth of the country. She has handled forex, treasury, retail operations, HR and investment banking portfolios and large Corporate Credit. As Chief General Manager (New Businesses), Mrs. Bhattacharya was involved in setting up several new companies / initiatives of the Bank including SBI General Insurance, SBI Macquarie Infrastructure Fund, SBI SG Securities Ltd, etc., as well as the launch of new IT platforms such as Mobile Banking and Financial Planning in the Bank. As Chief General Manager, Bengaluru Circle, she took keen interest in promoting Financial Inclusion and financing of Self Help Groups. She also had a stint in the Bank's New York office where she was in charge of monitoring branch performance, overseeing External Audit and Correspondent Relations.

Her interests include reading and travel. She is also associated with various initiatives for empowering the challenged and differently abled with the aim of integrating them in the society.

Mr. Rajkumar Dhoot, Member of Parliament, Rajya Sabha

Mr. Rajkumar Dhoot, Member of Parliament (Rajya Sabha) representing the State of Maharashtra and Immediate Past-President of the Apex Indian Chamber of Commerce & Industry, ASSOCHAM (The Associated Chambers of Commerce and Industry of India) is also the Co-Promoter & Owner of the diversified Videocon Group of Companies. He is a well known Industrialist and was born on 11th September, 1955 at Ahmednagar in Maharashtra.

Mr. Dhoot is a Commerce graduate (Hons.) from S.B. College, Aurangabad, Maharashtra. Apart from Trade and Politics, he is vigorously involved in social work which includes promoting education, especially among girls by running a Girls High School at Gangapur, Aurangabad for 1100 girls of First to Tenth Standard. He runs a leading multi-Super Specialty Charitable Hospital - 'Nandlal Dhoot Charitable Hospital' at Aurangabad with an investment of ₹ 100 crores, providing only second Cobalt-60 facilities for Cancer treatment, a fully developed Cardiac Center and allied treatment. He has also undertaken construction of roads in Gangapur & adjoining areas.

Mr. Dhoot was first elected to Rajya Sabha in April 2002 and served the Parliamentary Standing Committee on Finance, Consultative Committees for the Ministry of Commerce and Industry & the Ministry of Urban Development & Poverty Alleviation. He has been a regular member of the Consultative Committee for the Ministry of Finance & Special Invitee at the Consultative Committee for the Ministry of Communications & IT and for the Ministry of Petroleum & Natural Gas. He was a special invitee to the Consultative Committee for the Ministry of I&B. In May 2008, he was re-elected to Rajya Sabha & had been a Member of the Standing Committee on IT apart from being a Member of the Hindi Salahkar Samiti of the Ministry of Textiles. At present, he is a Member of the Standing Committee on Health & Family Welfare. In April 2014, Mr. Dhoot was elected unopposed for a consecutive third term in the Rajya Sabha.

Apart from keenly raising the issues of his home State Maharashtra through Parliamentary Questions, No-Day-Yet Named Motions, amendments on the Motion of Thanks on Presidents' Address & other means of Parliamentary modes, he has also introduced key Private Members Bills in the Rajya Sabha. He regularly writes to Union Ministers and Chief Minister of Maharashtra for the redressal of problems of Maharashtra & he always succeeds in his endeavors.

Mr. Dhoot is the Former President of Marathwada Industries Association, now Chamber of Marathwada Industries & Agriculture (CMIA) which actively promotes industries in Marathwada region and is a Member of India-France Parliamentary Friendship Group.

Mr. Chandan Bhattacharya, Chairman, Finance and Banking Committee, IMC & Former MD, State Bank of India

Mr. Chandan Bhattacharya has a wide range of experience in handling all matters of Banking, Trade and Commerce and other matters relating to Financial Sector during 42 years of his long career. He has been closely associated with Commercial and Retail Banking, Capital Market, Merchant Banking, Mutual Fund, Factoring, Insurance, Gilts and Securities Market at the apex level. He was MD of the State Bank of India up to 2005. Thereafter he served as a Member of Securities Appellate Tribunal (S.A.T.). After retiring from government service, he is working as advisors to Foreign Banks, leading international consultancy firms and some leading corporate houses in India. He also sits on boards of number of companies as an independent Director.

Smt. Usha Ananthasubramanian, CMD, Bharatiya Mahila Bank Ltd.

Smt. Usha Ananthasubramanian, alumni of Lady Sivaswami Ayyar Girls' Higher Secondary School, is the CMD of Bharatiya Mahila Bank Ltd.

Prior to taking over as CMD of the Bank, she was the ED of Punjab National Bank for over two years. She started her career with LIC. She joined the banking industry in February 1982 as a Specialist Officer in the Planning Stream of Bank of Baroda and rose to the rank of General Manager.

While in PNB, She has been part of the Committee formed for examination of the blue print and other related tasks for setting up of the first women focused Bank of India. She was the Head of the Core Management Team constituted by the Ministry of Finance, Government of India, for coordinating the process of establishment of the Bank.

In a career spanning over three decades, she has worked in various positions in the banking and allied areas. Key assignments held include General Manager South Zone, Bank of Baroda and Life Insurance Joint Venture Formation. She was closely associated with the transformation project of Bank of Baroda including rebranding and innovative HR initiatives.

She holds a Masters degree in Statistics from the University of Madras and a Masters degree in Ancient Indian Culture from the University of Mumbai. She has attended high level training programmes including Kellogg School of Management, Chicago.

Dr. M. G. Vaidyan, Deputy MD, State Bank of India

Dr. M. Geevarghese Vaidyan joined State Bank of India as a Probationary Dr. M. Geevarghese Vaidyan joined State Bank of India as a Probationary Officer in 1979. He has held various assignments in India, USA and South Africa.

He was instrumental in setting up of SBI DFHI Ltd., SBI Life Insurance Co. Ltd. and SBI Botswana Ltd. He was a member of the RBI Committee on Rural Penetration.

Dr. Vaidyan has spearheaded some of SBI's key rural banking and financial inclusion initiatives. He was Project Leader for SBI's BC/BF Channel and SBI Tiny Cards through which, government benefits were transferred the first time in 2006.

Dr. Vaidyan is currently heading SBI's Rural and Agri Business. He holds a Doctorate Degree in Business Administration and is a Certified Associate of the Indian Institute of Bankers.

Mr. K. V. Srinivasan, CEO, Reliance Commercial Finance

Mr. Srinivasan has been spearheading Reliance Commercial Finance since 2007. Prior to this, he was the Chief Operating Officer of Reliance Life Insurance co Ltd.

Mr. Srinivasan brings with him around two decades of multi-disciplinary experience in the consulting and financial sectors. He has been part of the senior management at ICICI Ltd, ICICI Prudential Life Insurance and Citicorp Finance.

Like his dynamic work portfolio, Mr. Srinivasan's educational background is also extensive. He's qualified as ACA and ACS with a Post Graduate Diploma in Management from IIM-Ahmedabad.

Mr. Srinivasan is also extremely passionate about travelling, photography & music.

Mr. T. K. Srivastava; ED, Syndicate Bank

Shri T K Srivastava has assumed charge as ED of Syndicate Bank on 1st September 2013. Prior to joining the Bank, Shri Srivastava was General Manager, Union Bank of India. Shri Srivastava holds Master in Management Studies and Commerce. In addition, he is also a Certified Associate of Indian Institute of Bankers. Shri Srivastava has been a Professional Banker for over 37 years of varied experience. He started his career in 1976 as Probationary Officer in Union Bank of India and thereafter elevated to various ranks to the level of General Manager of the Bank. He worked in various capacities in different Regions of the bank. He was responsible for 100% CBS implementation of Union Bank of India and their sponsored Grameena Banks. He has made huge contribution in creating a stable IT platform for Union Bank of India.

CA. Charanjot Singh Nanda, Central Council Member, ICAI

CA. Charanjot Singh Nanda is a Central Council Member of the ICAI. He is graduate for Kurukshetra University and was placed in Merit List in all three years. He has done his CA in 1991. He was in the merit list with 35th rank in CA. Intermediate exam. He is practicing Chartered Accountant since 19991 and his expertise areas include Audit, Banking, Capital Market, Human Relation Management, Corporate Laws, Taxation and Management Consultancy. He has served in various committees of ICAI in various capacities and currently, he is Chairman of Internal Audit Standards Board and Women Members Empowerment Committee of ICAI. He has also served various governmental and non-governmental organizations in various capacities. These organizations include Securities and Exchange Board of India, Ministry of Corporate Affairs, South Asian Federation of Accountants, Committee on Professional Accountants in Business and of course the Institute of Chartered Accountants of India and its Regional Councils.

He is and has been the member of various non-standing Committees of ICAI. He is the author of "A Practical Guide on Audit Documentation for Statutory Bank Branch Audit".

He has contributed as a Guest faculty and Program Co-ordinator at various Seminars and Seminars organized by International Bodies and Northern India Regional Council of the ICAI, WIRC, CIRC, EIRC, SIRC and Branches and Study Circles of the ICAI.

CA. Jatin Lodaya, Freelancer Professional

- Fellow member of ICAI - Chartered accountant, CPA (USA)
- Worked for 8 years with Standard Chartered Bank India (and Group subsidiaries) in Finance function, primarily focussed on financial governance, financial reporting and Basel compliance
- More than 10 years of work exposure at Big 4 accounting firms (India and USA)
- Accelerated Management Programme from ISB; DISA and FIFA from ICAI
- Speaker and paper writer for various knowledge sharing initiatives including learning material at ICAI, Chamber for Tax Consultants
- Currently a freelancer professional
- Favourite past time is photography

Mr. R. K. Dubey, CMD, Canara Bank

Mr. R. K. Dubey joined Canara Bank as Chairman & MD in January 2013. Prior to this, he held the office of ED of Central Bank of India from September 2010 to January 2013. A multifaceted personality, he is Member of the Managing Committee of the Indian Banks' Association, an Honorary Fellow of the Indian Institute of Banking and Finance (IIBF) and a Member of its Governing Council. In 2013-14 he was Chairman of the IBA Committee on Agro Business and MSME as well as Member, CII National Council on Financial Sector Development. He has been honoured with the "Best Banker Award 2012" by Dr. K. C. Chakrabarty, Deputy Governor, RBI, on ensuring growth of SMEs for their better future. He is a CAIIB from the Indian Institute of Bankers and an MBA from Bhopal University. He was also part of an Advanced Management Programme on Leading Change: Organisational Issues & Challenges by MDI Gurgaon in Europe and London (U.K.).

Mr. Rajiv Sabharwal, ED, ICICI Bank Ltd.

Mr. Rajiv Sabharwal is the ED on the board of ICICI Bank. He is responsible for Retail Banking, Rural Banking & Financial Inclusion Business. He is also a director on the board of ICICI Prudential Life Insurance Company Limited and the Non-executive Chairman of ICICI Home Finance Company Limited.

Mr. Sabharwal has done his Mechanical Engineering from Indian Institute of Technology Delhi and MBA from India Institute of Management Lucknow.

He has over 20 years of experience in the Banking/Financial Services industry. He joined ICICI Group in 1998 and has held leadership positions in credit policy, debt management, business analytics, mortgage finance, consumer loans, credit cards, rural and microfinance lending and financial inclusion. His contribution in the growth of mortgage and retail business is widely acknowledged in the industry circles and within ICICI Group. He also has considerable knowledge relating to the securities and portfolio management business segments as he has been on the investment advisory committee of ICICI Prudential Asset Management Company's Real Estate PMS since 2007.

Prior to joining ICICI Group Mr. Sabharwal has worked in the Consumer Durables Marketing, Commercial Finance and Retail Finance businesses at Godrej, SRF Finance and GE Capital respectively. In January 2009 he joined Sequoia Capital, a leading venture/growth capital company and worked as Operating Partner focusing on the financial services sector. There he led new investment decisions as well as represented Sequoia at the board in existing investments. He then rejoined ICICI Bank Limited from April 2010.

Mr. U. G. Revankar, MD, Shriram Transport Finance Co. Ltd.

Mr. Umesh Revankar holds a Bachelor's degree in Business Management from Mangalore University and MBA in Finance. He had attended Advanced Management Program at Harvard Business School. Mr. Revankar started his career with Shriram Group as an Executive Trainee in the year 1987. He is with Shriram group for the last 27 years and possesses extensive experience in the financial services industry. He has Grown with the organization and at present he is MD & CEO of Shriram Transport Finance Company Limited. During his stint with the Group, he has shouldered various responsibilities and worked in several key roles of business operations.

Shriram Transport Finance Company Limited is a flagship company of Shriram Group. He is the President of Federation of Indian Hire Purchase Association (FIHPA)

Mr. R. Gandhi, Deputy Governor, Reserve Bank of India

Mr. Gandhi is currently a Deputy Governor of the Reserve Bank of India, the central bank of the country. His current responsibilities in the Reserve Bank, include leading and overall direction and oversight on banking regulation, regulation and supervision of non-banking finance companies and urban coop banks, currency management, risk management and development and management of human resources in the Bank.

Having joined the Reserve Bank of India in 1980, he has built, over these thirty four years, expertise and experience in varied fields which include, beside the payment systems and the information technology areas, financial market(money, securities, forex and capital market) operations and regulation, currency operations and management, personnel and human resources management, industrial credit and international banking. He had a three year secondment to the Securities and Exchange Board of India (SEBI), the capital market regulator of the country. He had been the regional head in two places. He also held the charge of Director of the Institute for Development and Research in Banking Technology (IDRBT), Hyderabad. He was the Executive Assistant to the Governor of the Reserve Bank of India for three years. He also was a Reserve Bank nominee on the Board of Directors of four public sector banks (at different points in time) for five years. He has been associated with various committees, working groups and task forces.

He has been educated in India and abroad. He has a master's degree in Economics from the Annamalai University, in Tamil Nadu, India. He also has post graduate level certificates in Management Information System from The American University, Washington DC, USA and in Capital Market from the City University of New York, New York, USA. He has also taken special courses on Mathematical Economics, Econometrics, Development Banking and International Economics from The American University and the George Washington University, Washington DC, USA. His technical education includes a certificate course in System Programming from the IBM Education, Sydney, Australia and courses in ORACLE, Assembly Language, Networking etc. He also has a certificate in Gandhian Thoughts from the Madurai University, Tamil Nadu, India.

Mr. Mahesh Thakkar, Co-Chairman, Finance and Banking Committee, IMC

Director General: Finance Industry Development Council

ED: Association of Leasing & Financial Serv Cos.

Chairman: Genesis Equifin Pvt. Ltd.

Secretary General: Priyadarshni Academy

Member, Managing Committee & Co-Chairman, Finance & Banking Committee

Forum of Affiliated Associations and Entertainment, Media & Sports Committee: Indian Merchants Chamber (IMC)

Programme Schedule

NATIONAL SEMINAR 2014

"Indian Banking at the Crossroads : Challenge of Risk Management from Globalisation to Financial Inclusion"

Thursday, May 8, 2014 at 10.00 a.m.
The Ball Room, Taj Vivanta, Cuffe Parade, Mumbai

PROGRAMME

9.00 a.m. – 10.00 a.m.	:	Registration & Welcome Tea
10.00 a.m. – 11.00 a.m.	:	**INAUGURAL SESSION**
		Chief Guest
		Ms. Arundhati Bhattacharya, Chairman, State Bank of India
		Guest Of Honour
		Mr. Rajkumar Dhoot, Member of Parliament, Rajya Sabha
	:	Lighting of the Lamp
	:	**Welcome Address**
		Mr. Shailesh Vaidya, President, IMC
	:	**Introductory Remarks**
		Mr. Chandan Bhattacharya, Chairman, Finance and Banking Committee, IMC & Former MD, State Bank of India
	:	**Guest of Honour**
		Mr. Rajkumar Dhoot, Member of Parliament, Rajya Sabha
	:	**Chief Guest**
		Ms. Arundhati Bhattacharya, Chairman, State Bank of India
	:	**Vote of Thanks**
		Mr. Prabodh Thakker, President-elect, IMC
11.00 a.m. – 11.30 a.m.	:	Tea
11.30 a.m. – 12.45 p.m.	:	**SESSION I: FINANCIAL INCLUSION**
		Chairman
		Ms. Usha Ananthasubramanian, CMD, Bharatiya Mahila Bank Ltd.
		Speakers
		1. Dr. M. G. Vaidyan, Deputy MD, State Bank of India

		2. Mr. T. K. Srivastava, ED, Syndicate Bank
		3. Mr. K. V. Srinivasan, CEO, Reliance Commercial Finance
		Q & A
12.45 p.m. – 1.15 p.m.	:	**SESSION II: FINANCIAL REPORTING & RISK MANAGEMENT (ICAI SESSION)**
		Chairman
		CA. Charanjot Singh Nanda, Central Council Member, ICAI
		Speaker
		1. CA. Jatin Lodaya, Freelancer Professional
1.15 p.m. – 2.15 p.m.	:	**Lunch**
2.30 p.m.	:	**SESSION III: INNOVATIVE STRATEGIES FOR FUNDING FOR SMES**
		Chairman
		Mr. R. K. Dubey, Chairman & MD, Canara Bank
		Speakers
		1. Mr. Rajiv Sabharwal, ED, Retail Banking, Inclusive & Rural Banking and SME & Mid-corporate, ICICI Bank Ltd.
		2. Mr. U. G. Revankar, MD, Shriram Transport Finance Co. Ltd.
4.00 p.m.	:	**Valedictory Address**
		Chief Guest
		Mr. R. Gandhi, Deputy Governor, Reserve Bank of India
		Welcome Address
		Mr. Shailesh Vaidya, President, IMC
		Findings of the Seminar
		Mr. Chandan Bhattacharya, Chairman, Finance and Banking Committee, IMC & Former MD, State Bank of India
		Address
		Mr. R. N. Dhoot, Member of Parliament, Rajya Sabha
		Chief Guest
		Mr. R. Gandhi, Deputy Governor, Reserve Bank of India
4.30 p.m.	:	**Vote of Thanks**
		Mr. Mahesh Thakkar, Co-Chairman, Finance and Banking Committee IMC
5.00 p.m	:	Tea

Abbreviations

Advanced Measurement Approach (AMA)

Asset - Liability Management (ALM)

Automated data flow (ADF)

Automated Time Machine (ATM)

Banking correspondent experiment (BCE)

Bombay stock exchange (BSE)

Business Correspondents (BCs)

CAMELS (Capital Adequacy, Asset Quality, Management, Earning, Liquidity, Systems and Control)

Cash Management System (CSM)

Cash On Delivery (COD)

CGTMSE - Credit Guarantee Fund Trust for Micro and Small Enterprises

Chief Risk Officer (CRO)

Core Banking Solution (CBS)

Corporate Debt Restructuring (CDR)

Corporate social responsibility (CSR)

Countercyclical Capital Buffer (CCCB)

Current and Savings Account (CASA)

Customer service points (CSPs)

Direct benefit transfer (DBT)

Electronic Benefits Transfer (EBT)

Extensible Business Reporting Language (EXBRL)

External commercial borrowing (ECB)

External Commercial Borrowings (ECB)

Financial Inclusion (FI)

Financial Services Board (FSB)

Financial Stability Development Council (FSDC)

Five Year Plan (FYP)

Foreign Institutional Investors (FIIs)

Global Systemically Important Banks (G-SIBs).

Government of India (GOI)

Gross Domestic Product (GDP)

Gross Value Addition (GVA)

Gulf Cooperation Council (GCC)

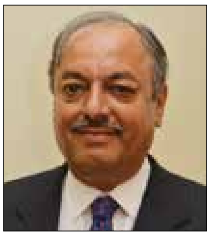
Information and Communications Technology (ICT)

Institute of Chartered Accountants of India (ICAI)
Internal Capital Adequacy assessment process(ICAAP)
International Finance Corporation (IFC)
International financial reporting standards (IFRS)
International Monetary Fund (IMF)
International standard organization (ISO)
Joint Liability groups (JLGs)
Liquidity coverage ratio (LCR)
Liquidity risk management (LRM)
Management Information System (MIS)
Micro Finance Institutes (MFI)
Micro, small and medium enterprise (MSME)
Ministry of Finance (MoF)
National development finance corporation (NDFC)
Net stable funding ratio (NSFR)
Non Banking Finance Companies (NBFCs)
Non Performing Assets (NPAs)
Non Profit Organizations (NGOs)
Over-the-counter OTC
Portfolio revaluation approach (PRA)
Profit before Tax (PBT)
Public Sector Banks (PSBs)
Public Sector Undertakings (PSU)
Quantitative Easing (QE)
Regional rural banks (RRB)
Reserve Bank of India (RBI)
Right to information (RTI)
Risk weighted assets (RWA)
Self-Help Group (SHG)
Shriram transport Finance Company Limited (STFC)
Small and medium enterprises (SME)
Small business financing companies (SBFCs)
Small Industries Development Bank of India (SIDBI)
Structured Financial Messaging System (SFMS)
Structured financial messaging systems (SFMS)
The Standardized Approach (TSA)
Value-at-risk (VaR)

Acknowledgements

Seminar Organising Committee 2014

Mr. Shailesh Vaidya
President, IMC



Mr. Prabodh Thakker
President-Elect, IMC

Mr. Chandan Bhattacharya
Chairman, Finance & Banking Committee, IMC & Former MD, State Bank of India

Co-Chairmen – Finance and Banking Committee, IMC

Mr. S. S. Mundra
Chairman & Mg. Director
Bank of Baroda

Mr. A. Krishna Kumar
Mg. Director & Group Executive (National Banking) & Whole Time Director, State Bank Of India

Mr. Mahesh G. Thakkar
Director General
Finance Industry Development Council

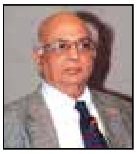
Conference Organising Committee 2014

CA Anil Bhandari
Chairman
WIRC of ICAI

Mr. Asit C. Mehta
Chairman
Asit C. Mehta Financial Services

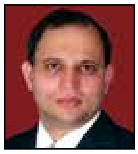
Mr. David Rasquinha
ED
Export-Import Bank of India

Mr. Deepak Chawla
Advisor
Ernst & Young LLP



Mr. Dilip S Dalal
Economist & Financial Consultant
Dilip S. Dalal & Co.

Mr. G. Sriram
General Manager
Canara Bank



CA Prafulla Chhajed
Chartered Accountant
Mayur & Chhajed

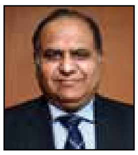
Mr. Rajeev Dewal
Head - Legal & Compliance
Industrial and Commercial Bank of China (ICBC)

CA Ramesh Kumar Pareek
Partner
Sarda & Pareek

Mr. Saket Jain
Chartered Accountant
Saket Shantilal Jain & Associates

CA Shruti Shah
Secretary
WIRC-ICAI

CA Snehal N. Muzoomdar
Chartered Accountant
Snehal Muzoomdar & Co.
Chartered Accountants



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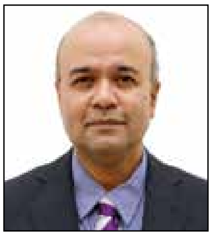

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About IMC

Set up in 1907, the 107-year old Indian Merchants' Chamber is an apex Chamber of trade, commerce & industry with headquarters in Mumbai. It has about 3,200 direct members, comprising a cross section of the business community, including public and private limited companies and over 225 trade and industry associations through which the Chamber reaches out to over 2,50,000 business establishments in the country. IMC is the first Chamber in India to get ISO 9002-2000 certification which has since been upgraded to ISO 9001: 2008.

IMC, set up in the wake of the 'Swadeshi Movement' by the visionary business leaders, has done a yeoman service during the freedom struggle of India. Hence, the Father of the Nation, Mahatma Gandhi accepted the Honorary Membership of IMC, the only Chamber in the country which has this privilege. IMC has always worked towards the cause of upliftment of the Society, and has been organizing seminars, workshops, etc. for promotion of trade and investment and extending the hand of co-operation to the Society at the time of natural calamities like flood, earthquake, etc. IMC is always seized of the contemporary socio-economic issues and make best efforts to find out the solution. We have been constantly fighting for "good governance" and the issues like corruption, as IMC believes that good governance is a panacea to the complex problems of India.

A Century of Service to the Nation has three distinct phases:

- A crucial role in freedom struggle in the pre-independence era (1907-1947).
- A vital and an equally important role in the promotion of trade, commerce & industry in the planned economy in the post-independent era (1947-1991)
- Promotion of business to become globally competitive in the post-liberalisation era (1991-2014).

IMC celebrated its Centenary in 2006-07. The celebration was launched by former President of India, **Dr. A.P.J. Abdul Kalam.** Also as recognition of the services rendered by IMC, a commemorative postal stamp was released by the Department of Post, Government of India. The closing ceremony of the celebrations was done at the hands of **Mr. P. Chidambaram**, former Finance Minister, Government of India.

In its second century it continues to serve with greater zeal the cause of trade, commerce and industry, especially in terms of global trade and investment and has in place 142 Memorandums of Understanding with leading chambers of commerce in over 50 countries. Its annual India Calling programme brings investment and trade opportunities in its target countries and in India to the attention of business and political leaders. Target countries hitherto have included Singapore, UAE, the U.K., South Africa, Canada, Brussels (Belgium), Turkey, Vietnam, China.

With its commitment towards social upliftment at the forefront, IMC has selected **'Growth with Governance'** as its theme for the year 2014-15. Various programmes and activities undertaken by the Chamber throughout the year will centre around this theme.

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INDIAN MERCHANTS' CHAMBER

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