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Secure and safe

Indian banks have been ahead of the curve in embracing technological innovation



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Banks are a mirror of the economy. The story of Indian banking system is thus also the story of the evolution of Indian economy. Like all good storylines, it has a couple of dramatic turning points. The first was the nationalisation of major banks in 1969 which ended a period of bank runs and failures, and gave branch expansion a fillip. Nationalisation also enabled the banking system to be more tightly controlled by the state through caps on interest rates, quantitative targets for sectors and an elaborate process for branch licensing.

The second major chapter in the Indian banking saga was the liberalisation of the sector post 1991, a part of the larger process of opening up the economy. Licences were granted to new private players to usher in product innovation. Further, a number of initiatives were taken to make the RBI autonomous both as a bank regulator and monetary authority. This went hand in hand with the unshackling of the interest rate regime and the slow expansion of the ambit of directed credit that constitutes 'priority sector lending'. The high point of this period was the adoption of new technology enabled by rapid changes in IT. There was for instance massive expansion of the ATM network and the ushering in of electronic payments like NEFT, RTGS. At the end of 2015, the country had 2.1 lakh ATMs, and 9 million average monthly RTGS transactions.

Then followed convergence of telecom, media and computing, which changed the way we work, play, live, and indeed bank. This is what I'd call the third chapter, which is yet to unravel fully. It originated with the creation of a new architecture for the banking system that has a number of things in its design most of which are riding 'over the top' of the banking system. Specialised payments banks have been allowed with legitimacy being granted to instruments such as mobile wallets, 'small' banks have been licensed to serve purely local needs and the use of Aadhar has been integrated into banking regulations to create millions of new accounts. The drivers for this change have been both the need for financial inclusion and the demands of a new business ecosystem that has grown around e-commerce, the rapid penetration of mobile telephony.

The secular shift in technology, mobility, social computing and analytics have led to changing consumer behaviour.

Indian banking has come a long way in the

last four decades. They are compatible with regulatory norms that are even more stringent than international Basel-III norms. They offer a range of products both to consumers and companies that is, arguably, wider than a number of developed economies. Interest rate setting is free yet transparent. Indian banks have perhaps even been ahead of the curve in embracing technological innovation and change. The availability of pan-industry data on databases like CIBIL coupled with proprietary analytical models of individual banks has helped enormously in managing and pricing risk. The fact that a bank can offer some customers a loan literally in a matter of seconds (yet minimise the risk on its books) is testimony to the disciplined analysis of reams of data of the customer's credit history, the stability of his income stream and thus his ability to service the loan.

However, some critical challenges remain. Credit penetration is still relatively low compared to our peers. While recent global events have pointed out the dangers of a credit bubble, we still have a long way to go in making credit available before we are anywhere close to a 'bubble zone'. Second, despite a slew of recommendations over the last two decades, the corporate bond market remains small. Thus Indian banks not only provide short term corporate loans and retail credit but also take on the burden of financing long term projects. This lies at the core of significant mismatches in the banks' balance sheets and the build-up of a pile of bad loans. Despite new regulations and laws (SARFESI was enacted in 2002 followed by other instruments like corporate debt restructuring and strategic debt restructuring), closure of bad or stressed loans remains difficult. The new bankruptcy code promises some relief.

Though there's been the niggling question of state 'ownership', I believe being in the public sector does not by itself make a bank inefficient. Given the recent initiatives of the government for improving the environment in which PSUs operate they are ready to meet the growing needs of the economy. They are equally well poised to make the most of the opportunities emerging out of globalisation as well as the domestic market.

The Indian banking system is secure, safe, with identified issues being resolved over time. ♦

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