

Shaktikanta Das: 6 years of reforms

An overview of major changes under his leadership

Regulatory Review Authority (November 2021)

It's a reform that never received the credit it deserved. It incorporated some of the best practices from global central banks on consultation ahead of policy formulation; feedback from regulated entities (REs) and trade bodies; and structured meetings with banks' CEOs and senior compliance officials. Over 400 circulars were withdrawn. It was the central bank's 'open-door policy' aimed at fostering better engagement with REs. Regulatory Review Authority (RRA) 2.0 came two decades after Y V Reddy, as deputy governor, set up the first edition of RRA in 1999.

Playing the diplomat on new bank licences (November 2021)

A Mint Road Internal Working Group (IWG) had, on November 20, 2020, made a case for large corporate and industrial houses as promoters of banks. It also suggested that large non-banking financial companies (NBFCs) with an asset size of ₹50,000 crore and above (including those owned by corporate houses) be considered for conversion into banks. However, instead of saying 'no' (which would have been seen as inflexible), the Reserve Bank of India (RBI) played it smart. While accepting 21 of the IWG's 31 recommendations, it said that "the remaining recommendations are under examination".

Housekeeping in shadow banks (October 2022)

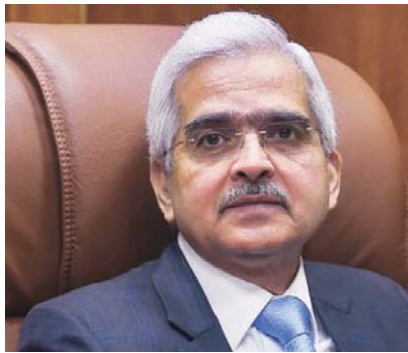
The scale-based supervision for NBFCs consisted of four layers based on entity size, activity, and perceived riskiness — base, middle, and upper layers. Mint Road essentially built upon its earlier architecture on systemically important non-deposit-taking NBFCs (NBFC-ND-SI): if the consolidated asset size of NBFCs within the same group was ₹500 crore and above, they were categorised as NBFC-ND-SI, regardless of individual asset sizes.

In April 2022, norms for the compensation of key managerial personnel and senior management of NBFCs were announced (effective from 2023-24). They prescribed the terms for fixed and variable pay, adjusted for risks, with a portion of the variable pay to be deferred and subject to malus/clawback arrangements.

An asset quality review of the top 50 NBFCs took place in 2019, though it was not classified as such. The big picture here is that having been burned by the blowouts at Infrastructure Leasing & Financial Services and Dewan Housing Finance Corporation in 2018-19, Mint Road plugged the regulatory arbitrage gaps.

Digital currency (2022)

A standout move in 2022 was the introduction of the central bank digital currency (CBDC), a legal tender issued by a central bank in digital form. Shaktikanta Das termed it a "landmark achievement" for the functioning of the economy. Deputy



Governor T Rabi Sankar gave a potential scenario: "It is conceivable for an Indian importer to pay its American exporter on a real-time basis in digital dollars, without the need for an intermediary. This transaction would be final, as if cash dollars were handed over, and would not even require the US Federal Reserve system to be open for settlement. Time-zone differences would no longer matter in currency settlement." The RBI's move on CBDC must be seen through a different lens as well. While interest in CBDC is near universal now, very few countries had even reached the pilot stage of launching their CBDC back then.

Batting for governance (May 2023)

In a first of its kind, RBI brass called for a meeting with the boards of state-run and private banks on May 22 in New Delhi and May 29, 2023, in Mumbai, respectively. The second edition of this interface with private banks was held last month in Mumbai. What Das conveyed was as follows: The soundness of the banking system relies critically on effective corporate governance to build an environment of trust, long-term stability, and business integrity. Governance frameworks can be pictured as a complex mesh of nuts and bolts holding the financial pillars of capital, assets, deposits, and investments in place, ensuring the structure of the bank remains upright. Raising financial resources would not be a constraint for banks with robust governance frameworks, as they can command a governance premium. This premium, in turn, will be driven by the quality of leadership at the top.

Focus on business models (May 2023)

While annual inspections assess the quality of RE's books, no communication had been made from the banking regulator on their business models in the public domain. While stress tests conducted had concluded that banks had adequate capital buffers, focusing solely on business models in search of returns carried the potential for blowback. RBI's recent moves to arrest the runaway growth in consumer credit can be seen as a proactive measure. The emphasis on governance and the focus on business models may explain why there have been no blowouts during Das' tenure as RBI helmsman.

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