'Looking closely at banks' biz models'

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The Reserve Bank of India (RBI) is looking closely at banks' business models to flag any deficiencies that could impact financial resilience, Governor Shaktikanta Das said on Thursday, but added that domestic lenders can maintain minimum capital even under severe stress conditions.

He said the regulator expects the bank boards to focus on building adequate capital and liquidity buffers beyond the regulatory prescription for sustainable growth.

Das said scheduled commercial banks' gross non-performing assets (NPA) ratio — a measure of the health of banks — declined further to 4.41 per cent by the end of December 2022, from 5.8 per cent in March 31, 2022 and 7.3 per cent in March 31, 2021. Banks' gross NPA ratio is at its lowest since March 2014, when it was 4.1 per cent. The capital adequacy ratio, at 16.1 per cent at the end of December 2022, was also much above the minimum regulatory requirement.

"...financial resilience is closely linked to a bank's business model and strategy. The Reserve Bank has, therefore, started looking at the business models of banks more closely. Aspects or deficiencies in the business model itself can spark a crisis in due course," Das said at the Global Conference on Financial Resilience organised by the College of Supervisors.

Das emphasised on identifying and addressing "root causes" of vulnerabilities, which he said often comes from inappropriate business models. Over-aggressive growth strategies or mindless pursuit of bottom lines, for instance, are often a precursor to future problems, he said.

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"WE EXPECT BANKS TO CONTINUALLY ASSESS FINANCIAL RISKS AND FOCUS ON BUILDING ADEQUATE CAPITAL AND LIQUIDITY BUFFERS"

"OVER-AGGRESSIVE GROWTH STRATEGIES OR MINDLESS PURSUIT OF BOTTOM LINES ARE OFTEN A PRECURSOR TO FUTURE PROBLEMS"

SHAKTIKANTA DAS, RBI governor

Singhania, chairman and managing director of Raymond, in a news conference.

Raymond Chief Financial Officer Amit Agarwal said: "We decided to sell the business because we thought we had created a brand and we need a partner to take it to the next level." "We will be expanding our footprint in retail under RCCL. In the real estate business, we will focus on the Mumbai region," he said.

RBI guv...

"While we do not interfere with business decision making, regulated entities must demonstrate adequacy of internal controls and loss absorption capacity to match the risks that their business models may generate," he said, adding that the RBI's approach is to flag deficiencies to the senior management or the board for remedial action. "We also remain engaged with external auditors and flag issues that are relevant for their role as the third line of defence. In recent times, our focus on 'root cause' has led us to mandate certain housekeeping hygiene such as automated identification of non-performing loans and provisioning, proper checks and balances in the use of Internal and Office accounts, implementation of Early Warning Systems (EWS) for preventing frauds and a host of IT and cybersecurity related controls, among others," he said. The governor said the RBI not only prescribed regulatory norms for capital adequacy and liquidity ratios, but also nudged banks to build capital buffers in good times and times of plenty. "We did this during the Covid-19 pandemic when there was plenty of liquidity, the interest rates were low, and the full impact of the pandemic on the financial sector was still highly uncertain," he said. As a result of these measures, he added, the Indian banks had remained resilient and were not affected by financial instability in the developed world, mainly the US. He said macro stress tests for credit risk indicate that SCBs would be able to comply with the minimum capital requirements even under severe stress scenarios.

Citing the recent bank failures in the US and in Europe, Das said risks for individual banks would crop up from their balance sheet, which might have been considered safer.

"Hence, we expect the management and Board of Directors of each bank to continually assess the financial risks and focus on building up adequate capital and liquidity buffers even beyond the regulatory minimum for continued resilience and sustainable growth," he said.

Talking about operational resilience, Das said banks need effective policies regarding cyber risks. "Given the extensive level of outsourcing being done by the banks and also by other regulated entities, there is an even greater need for ensuring that effective policies and practices are in place in this regard. Even the G20 finance ministers and central bank governors are focusing on risks arising from third party dependencies," he said.