‘Never seen this kind of alignment in the banking sector, India or abroad’

ANJALI KUMARI

National Bank for Financing Infrastructure and Development (Nabfid) Chairman and Jio Financial Services Non-Executive Chairman K V Kamath said fintechs were using new and cost-effective technology, which incumbent banks are unable to compete with.

“You have the fintechs that are running on great technology. Then, you benchmark them with incumbent banks who are still finding it difficult to raise their game to the same level,” he said at the *Business Standard* BFSI Insight Summit.

Kamath noted the increasing resilience of banks as indicated by their healthy capital position and lower delinquency. “Never seen this kind of alignment in the banking sector, India or abroad. Banks are consistently running high capital adequacy while maintaining high asset quality,” he said.

Gross non-performing assets (NPAs) of banks peaked at 11.5 per cent in 2018, and there has been a steady decline of bad loans in the past few years. Gross NPAs were at a decade-low of 3.9 per cent as on March 31, 2023. Banks have turned profitable and accessed the market for raising funds, which led to the capital adequacy ratio hitting an all-time high of 17.1 per cent as of March 2023.

Kamath said the health of the financial system was a direct outcome of effective governance. According to him, banks are now enjoying higher net interest margins (NIMs).

“We are seeing banks lending at 8-9 per cent, but still if we look at the last reporting quarter, we saw 4.5 per cent as the average NIMs for large banks,” he said.

Kamath highlighted two key reasons behind high deposit rates in India -- high inflation and high margins.

“The economy is growing at 6, 7 or 8 per cent, depending on how you want to look at it ... some banks are growing at 15 per cent, some at 12 per cent. Probably there is a need to calibrate growth as they go along,” he said.

In 2020, when the pandemic came, Kamath was heading an expert committee formed by the RBI to seek recommendations on the contours of loan restructuring. He said it was estimated that debts of ₹9.5 trillion would be recast, but only 5 per cent of that was taken up for restructuring.

“This is not because people are uninterested but because people did not need it (restructuring) as liquidity was good, interest rates held and of course companies were able to ramp up back to speed,” Kamath said.

Kamath urged banks to embrace technology. He acknowledged that chief executive officers did not need to be tech experts but should be aware of technological advancements.

On the global front, he said that in the next two-three years interest rate risks would become more important than credit risks. However, risk is much less in India because the structure is well managed, he said.

Kamath said this was the right time for an institution like NaBFID because the capital market was developed and times had changed. He said that financial constraints faced in 1995-96, when development financial institutions tapped retail money in the absence of significant wholesale investors, was no longer an issue.

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Chairman, Nabfid & Jio Financial Services