



'CMAs ARE BEST SUITED TO DOING BETTER COST ALLOCATION TO GET RID OF NON-VIABLE PRODUCTS'

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MA Would you kindly brief us on the role of Indian Banks' Association in the governance of Banking & Financial systems in India?

IBA was set up in 1946 with 22 members with a view to discuss issues of common interest among banks. Over a period of time, it emerged as the "Voice of the Indian Banking Industry". The vision of IBA is "to work proactively for the growth of a healthy, professional and forward looking banking and financial services industry, in a manner consistent with public good." With increasing freedom in the banking sector, there is a need for self-regulation in the system and IBA is doing exactly that. Bankers come together under the aegis of IBA to formulate model policies on various aspects of banking. IBA provides a platform for all banks to discuss issues of common interest. Since Corporate Governance is one of the key areas of interest to our members, IBA is very much involved in this matter. IBA always favoured good governance in banks and financial institutions. As these institutions are custodian of public money, good Governance is extremely important. The initial move towards corporate governance in banks can be traced in the Advisory Group on Corporate Governance for the RBI Standing Committee on International Financial Standards and Codes, chaired by Dr. R.H. Patil, which submitted its Report in 2001. Subsequently in 2002, RBI constituted a Consultative Group of Directors of Banks and Financial Institutions under the chairmanship of Dr A S Ganguly to review the supervisory role

of the Banks and Financial Institutions. It is one of the important committees on Corporate Governance which suggested "fit and proper" criteria for appointment of directors in banks. At that time IBA had provided our views on the recommendations of the Ganguly Committee and we had organised a seminar only for Corporate Governance in Banks. Now, P J Nayak Committee to Review Governance of Boards of Banks in India has come out with comprehensive recommendations. IBA has constituted a working group to examine the recommendations and will be responding to RBI shortly.

MA What have been the major initiatives taken during your tenure with this organisation?

I took charge of IBA from December, 2013. Our interactions with RBI and Government of India have been frequent since then. I am in the process of enhancing the image and visibility of IBA within and outside India. I have ensured that IBA's views were sent on all Discussion papers or reports put up by RBI in public domain. Important RBI papers on which IBA has given the views are as under:

- RBI's draft guidelines on capital and provisioning requirements for exposures to corporates having unhedged foreign currency exposure.
- RBI's discussion paper on Framework for Revitalising Distressed Assets.
- RBI's Draft Report on Implementation of Counter Cyclical Credit Buffers.

- RBI's Draft Framework for 'Dealing with Domestic Systemically Important Banks' (D-SIBs).
- Committee on Comprehensive Financial Services for Small Businesses and Low Income Households (CCFS).
- Committee to Study the Feasibility of Implementation of GIRO based Payment System in India.

IBA is a member of various international organisations such as International Banking Federation (IBFed), Institute of International Bankers (IIB), Society for Worldwide Interbank Financial Telecommunication (SWIFT) and Asia-Pacific Rural and Agricultural Credit Association (APRACA). My intention is to leverage their expertise in areas of interest to IBA. Within IBA manpower planning and capacity building is underway to equip the staff to meet the demands of the banking industry. Go Green is another initiative taken by me here. Increasing the members of IBA is another area I am focusing now.

MA With the changing economic condition in the country, how has the role of IBA changed over the years?

In the past, IBA functioned as a link between RBI, banks and the public. It served as a platform for the common operational problems of the members. It acted as a nodal agency for propagating government policies among nationalized banks. During this time IBA

formulated Ground Rules & Code of Ethics for banking transactions. Dissemination of information to members and wage negotiations on behalf of public sector banks were the other two functions of IBA in the past. As Banking Industry evolved, IBA had adopted itself to the changing landscape of the banking sector. We have expanded our horizon of activities, though certain functions like wage negotiation, information dissemination etc are still being performed, additional roles like lobbying for protecting the interest of the banks, examination of various issues pertaining to banks, devising model policies for adoption by banks and striving to promote best practices in banking. With RBI we have pre-policy and post-policy meeting and also issue specific meetings. With the Government also we have pre-budget meeting and various other meetings on most of the issues affecting the banking sector. Besides this, senior management of IBA is represented in various committees set up by RBI and Government of India.

MA What according to you, would be the cost implications of Basel III norms for Indian banks?

Under Basel III norms, which are being implemented in phases between April 2013 to March 2019, banks need to have a 8% core capital ratio and total capital adequacy ratio of 11.5% against 9% prescribed now, including a capital conservation buffer of 2.5%. According to RBI estimates, the PSBs will require an additional capital to the tune of 4.15 trillion of which equity capital will be of the order of 1.4- 1.5 trillion. In general, higher capital and tighter liquidity requirements under Basel III will increase the capital requirements in Indian banks, as in other countries. However, the actual impact would vary in different countries depending upon the amount of exposures impacted under Basel III, existing capital structure of banks, i.e., extent of reliance on non-common equity capital elements, existing rules relating to regulatory adjustments, credit growth experienced by the economies and existing credit to GDP ratio. The impact of these requirements on the profitability of banks would depend upon sensitivity of lending rates to capital structure of banks and sensitivity of the credit growth to the lending rates. Though IBA has not done a study on cost implications of Basel III norms, according to studies by international agencies, suggest that all other things being equal, Basel III would reduce return on equity (RoE) for the average bank by about 4 percentage points in Europe and about 3 percentage points in the United States. While many large international banks are required to increase their equity capital by more than 100% over the existing levels, many Indian banks would certainly not be required

to increase their equity levels by that order. Therefore, the impact on their RoE is likely to be much less than 3 to 4 percentage points as observed in the case of US and European banks.

MA How could proper Cost Management system play an important role in the overall growth of banking sector in India?

Along with income growth, cost reduction is important in any institution. Cost Management play a pivotal role in fields such as 1) New Product Pricing : CMAs could play important role in striking the right price of the product with due consideration being given to the risk / reward / resource allocation aspects. No product or as a matter of fact, no institution can last long if there is a defect in pricing of the products. 2) Better Cost Allocation: I think cost accountants are best suited to do this job. It has to be kept in mind that cost allocation / pricing is not a one off exercise, it is a continuous process, which should continue throughout the life of the product to keep it competitive. 3) Decision on discontinuation of a product: CMAs can play an important role in taking this decision as no financial institution can afford to continue with the products , which are not giving net positive return. 4) Other Areas : Cost Management Accountants could be useful for treasury departments, Stress testing , Scenario Analysis etc

MA What could be the role of the CMA professionals in helping the banks in carrying out Risk Based Internal Audit (RBIA) of banks? Can you identify other significant role of the CMAs in the banking sector?

CMA's can support the Banking and Financial Institutions in the areas of their operations such as Pre-Sanction Level, Post-Sanction Level, Monitoring of the stressed accounts, Risk Based Internal Audit in Banks, Business and Asset valuation, Development of Cost Management module for different operations of the Bank, Evaluation of cost of different transactions, Effective Cost Management in banking transactions, Strategic Cost Management, Risk Management in Banking Sector and new product pricing, etc.

MA How could growth in credit to retail segment and small and medium enterprises anticipated given the banking option to industry houses?

In the recent bank licensing given by RBI, out of 25 applicants, only 2 got bank licenses. Both of them are not from any industrial houses. Hence that aspect is very clear. Further, all the new banks have to open 25% of their branches in the unbanked areas. Hence, banks will be giving focused attention on retail and SMEs segment as well.

MA As per a report, the combination of bad and restructured loans is at least 10 per cent of total banking assets in India. Do you feel Basel II and Basel III provide for sufficient provisions to take care of this?

Basel III seek to address issues relating to systemic risk through various measures including (i) leverage ratio; (ii) capital conservation buffer; (iii) countercyclical capital buffer; (iv) addressing procyclicality of provisioning requirements; (v) addressing interconnectedness; (vi) addressing the too-big-to-fail problem; and (vii) addressing reliance on external credit rating agencies. Some of these measures are related to provisioning against stressed assets which is higher than the existing practices. Let me also highlight that Basel II and Basel III aim to make the banking system stronger. It is also pertinent to note that banks are making adequate provisions to not only bad loans but also to standard advances and restructured advances. Hence to my mind the provisions are adequate at this point in time.

MA How effective would it be in promoting financial inclusion by providing licenses to new banks, what other ways could be adopted to reach financial services to unbanked population?

One of the reasons for new bank licenses was to encourage financial inclusion as a large number of people are excluded from the formal financial finances. However, banks have already started various initiatives for financial inclusion. Financial inclusion targets given to banks are being met and they are in the process of covering all villages in the country. As of now, Business Correspondents (BCs) are the most popular means adopted by banks for financial inclusion. Efforts are on to scale up the BC model to the next level. Mobile Banking is also used in some areas where there are bottlenecks in personnel to move from one place to another. Besides, as I mentioned in question no: 7, banks have to open 25% of the new branches in the unbanked areas to enable the hitherto unbanked people to access formal source of finance.

MA Please brief us on the relationship of RBI and IBA?

IBA and RBI are having a very cordial relationship. Since IBA is the voice of the Indian Banking Industry, any issue affecting the banks are taken up for discussion with RBI for resolution. There are regular and specific interactions with RBI depending on the nature of issue of our members. Besides these IBA is represented in the key committees set up by RBI. IBA is often consulted by RBI to understand the consensus of the banking sector on any policy related matters affecting the banks. I have also covered our relationship with RBI in detail in question no: 2 & 3.