

Banks and NBFCs – the next five years

Usha Thorat
Former Deputy Governor

Address by Mrs Usha Thorat on “Banking and NBFCs in the next five years” in the seminar on ‘Financial Horizon and Regulatory Complexity’ conducted by FedConTech on October 5, 2016 in Chennai

Challenges before Banking System – next 5 years

- Asset Quality and risk management
- Stressed assets management
- Competition from new banks , new players, disintermediation, non banking entities
- Compete for Customers and for Talent
- Managing Technology and Cyber Security

Banking System- Opportunities

- Technology - Information, Communication,
- Products - Infrastructure, project financing, small enterprises, retail
- Access to low cost deposit, data base on customers, network, access to central bank liquidity, ability to manage and warehouse risk
- Financial Inclusion - opportunity or challenge?
- Profitability – niche services, large volume low margins, first mover innovation

Regulatory Framework and Challenges

Objectives

- Public Interest
- Sound institutions – concept of public funds
- Systemic Stability
- Consumer protection –conduct of business
- Financial Integrity – AML and anti terrorism

Principles

- Neutral within sector
- Neutral vis a vis activity
- Capacity to supervise and enforce
- Adhering to global standards

Multiple regulatory Authorities

- Prudential regulator
- Systemic risk regulator
- Conduct of business regulator
- Market regulator
- Payment system regulator
- Regulator of foreign exchange
- Integrity – FIU, EOW, CVC, CBI
- Accounting and auditing standards and codes-
Role of auditor
- Self regulation ?

NBFCs- role and opportunities

- Servicing first time entrants into formal financial system
- Different approach for dealing with risk - more flexible less burdened by regulation
- Meeting specific needs such as retail, asset finance , infrastructure, real estate and housing, mergers and acquisitions, distressed assets recovery and resolution, micro finance

Sectoral deployment of bank credit

Year on Year % Growth

	Overall	Industry	NBFCs
Aug-16	0.9	-1.3	-5.4
Mar-16	9.1	2.7	13.2
Mar-15	8.6	5.6	6
Mar-14	13.6	12.8	12.9
Mar-13	13.5	15.1	11.6
Mar-12	17	20.7	22.5
Mar-11	20.6	22.4	67.8
Mar-10	16.8	24.4	14.8
Mar-09	18	22.8	25.2

NBFCs- challenges

- Regulatory environment
- Sources of funding
- Competition from new banks and new players
- Technology
- Non level playing field ?