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Nationally, CEPR is network of nearly 50 odd professionals and economists, who are regularly contributing to make the work more meaningful. At present we operate out of two offices, Noida in Delhi NCR and Chandigarh.

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Conference Report

INDIA BANKING CONCLAVE 2018

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“The noise around NPAs is because of the previous government. Banks were pressurised to give loans to big businessmen; this scam was bigger than commonwealth, 2G or coal scam. The NDA government is taking steps to secure the banks and depositors.”

Narendra Modi
Prime Minister of India

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TEAM

Gopal Krishna Agarwal
National Spokesperson (Economic Affairs), BJP
Independent Director, Bank of Baroda
Chief Advisor, India Banking Conclave

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The Future of Indian Banks: Bright, Brimming and Inclusive

This statement might sound an overzealous optimistic to anyone, especially those who understand the churn country's banks are going through. But if India aspires to reboot the economy, the banks will have to be a strong backbone of the entire process. The aspiration of the world's sixth largest economy, but second largest in terms of population, is to jump from present $2.6 trillion engine to be $10 trillion behemoth –surpassing the economies like Japan and UK—to compete with the Chinese, Germans and Americans. & for this Indian economy not only require access to easier capital, but also much healthier and robust banks.

But at present, the bright spot requires real hard work to get noticed. In last two decades, the debt became bad debt, then they turned themselves into non-performing assets, or NPAs. This eventually led to not only bleeding corporate balance sheets, but also drastically impacted the growth engine of the country. The then chief economic advisor to the government called this as duel-balance-sheet challenge. The banks are shying away from extending the credit, the banks turned conservative and consumers are looking at opportunities to cheaper capital. The worst part is; there is no meeting ground and divide is deepening.

These NPAs and bad debts can be segregated into three categories; the investments struck because of the bonafide business risks, or due to lack of government clearances; the corporate frauds, the funds taken out in connivance of bank employees. PM Modi's regime chose to structurally correct the policy and regulatory hurdles, including projects in Roads, Power, Iron & Steel et al sectors. These include policy correction, benign regulatory interventions and restructuring of debts, along with improving the efficiency of the governance. But this requires to be complemented by the financial institutions and their regulator, Reserve Bank of India.

The challenges of the banks don't end here; the PM Narendra Modi led NDA government is pushing for bringing the marginalised population into the banking channel. His efforts not only brought 32 crore newer consumers, but is also transferring the benefits –subsidies, aides, scholarships et al—directly into their accounts—enabling a huge chunk of population there to use the banks and their products. Traditionally for the banks, they are the low end consumers for banks. They trust that there is less business and more input cost, and stayed away from getting deeper into the society. But the present regime doesn't think so.

And above all the technology is bringing in the disruptions faster than many of us would have envisaged. The forthcoming BASEL-III norms, would require banks more investments in the creating the infrastructure, making it secure and optimum utilisation of the artificial intelligence and big data to cut the operational costs and understanding of the consumers better and efficient.

The two days of these deliberations were designed as a thought provoking exchange of insights, ideas, laments and develop a quest for solutions. The effort was supported by country's official think tank, NITI Aayog as the knowledge partner. During these two days, six chairpersons of various banks, nine MDs or CEOs, eleven corporates honchos, along with the leadership of RSS and ruling Bharatiya Janta Party participated in these discussions. The cabinet minister Piyush Goyal did an hour long special session, and on the first day, NITI Aayog's vice chairman, Rajiv Kumar and BJP's General Secretary Bhupendra Yadav shared their respective insights. Commerce and Industries Minister, Suresh Prabhu couldn't attend the conclave, but he shared his video message.

India Banking Conclave, 2018 started with an energetic session with Minister of State, Home Affairs, Kirren Rijju addressing the audience full of country's best of the best bankers, fund managers, investment counsellors, academicians, CAs and other professionals; the financial security is an essential part of the national security. & underlines, why PM Narendra Modi led

NDA government is pushing for bringing the marginalised population into the banking channel. In this session, he was joined in by National Organising Secretary of Akhil Bharatiya Vidyarthi Parishad, or ABVP –world's largest student organisation. He picked up the point of developing the skill set of the bankers.

The valedictory session was led by National Organising Secretary, Swadeshi Jagran Manch –economic thinktank of Rashtriya Swayamsevak Sangh. The first technical session, Indian Debt, Indian Problem, Indian Solution, the tone was set to evaluate the work done by the present NDA regime. The last four years, chose to bite the bullet and decided to clean up the mess our banks & financial institutes have. The discussion had GC Chaturvedi, Chairperson of largest private sector bank, ICICI Bank, ex-Principal Economic Advisor of GOI, Ila Patnaik, Bain Capital's Harsh Vardhan, Ravi Krishna Thakkar, CEO UCO Bank. These bad liabilities and habits of keeping these rots under the carpet were actually killing not only banks; but the whole system. This session was moderated by Executive Editor of BTVI.

PM Modi's regime had two extensive reports to begin their treatment; Financial Sector Legislative Reforms Commission headed by BN Krishna and the PJ Nayak led committee on the structure of the boards of Indian banks. Indian banks for sure require massive overhauling; in the way they understand their consumers and risk associated with their consumers' businesses, their operations & to make them more efficient, structures of the boards, along with the ways to deal with the government's political requirements and regulator's raised eyebrows.

The regulator, Reserve Bank of India came out of with a Prompt Corrective Action, or PCA framework to improve the financial health of the banks. RBI placed eleven PSBs -- Dena Bank, Central Bank of India, Bank of Maharashtra, UCO Bank, IDBI Bank, Oriental Bank of Commerce, Indian Overseas Bank, Corporation Bank, Bank of India, Allahabad Bank and United Bank of India --under the PCA framework. Quickly following some of the PJ Naik led Committee's report; for public sector banks, in 2016, Banks Board Bureau, or BBB was formed, with intentions to clean up the processes, improve the governance, appointments of the chiefs, help strategies and capital raising.

This brings in the discussion on the way forward for the banks. And this is nothing short of biting the bullet for the government. Mergers Vs Privaisation. These questions haunt every finance minister's mind, especially, in the second half of the liberalisation. Whether to go for mergers of the public sector banks making them into a singular or a fewer banks is a great option or country should privatise many of these banks. State Bank of India merged all its associate banks. On July 16, 2018 board of directors of LIC decided to pump in capital in IDBI Bank to re-capitalize. The discussion was moderated by Anil Sharma, a prominent chartered accountant and non-executive director at UCO Bank, where Rathin Roy, member of PM Modi's Economic Affairs Council and director of NIPFP, Shyamala Gopinath, Chairperson of HDFC Bank and G Padmanabhan, Chairperson of Bank of India.

For last two years, the growing piles of NPAs is gathering the limelight. Rightly so. By end of 2017, the NPA among all the banks in the country rose to Rs 8,40,958 crore. The major constituents in this are; industry loans worth Rs 6,09,222 crore followed by services worth Rs 1,10,520 crore

11 OUT OF 22 PUBLIC SECTOR BANKS ARE UNDER PROMPT CORRECTIVE ACTION

and then the agriculture & allied activities worth Rs 14,986 crore and non-food activities worth Rs 36,630 crore. The banks required a massive clean-up of their balance sheets. This required an overhauling in operations side of the business. The sharp spurt in the NPAs is a concern. Between 2010 & 2014, the average 2.6 per cent the share of the GNPA among total advances tripled to 7.96 per cent in last four years.

The discussion at session need for the development financial institutions, India & Development Banks, on the first day underlined the fact that using banks money to fund the long gestation projects is actually unfair. But due to lack of instruments available in the country, these banks get exposed to such lending. This is resulting in the large set of bad assets or bad loans. The discussion was participated by B. Sriram, CEO, IDBI Bank, Gopal K. Agarwal, Economist & non-executive director, Bank of Baroda, Nikhil Sahani, Group President, Yes Bank and Ameya Prabhu, MD, Dusenberg Bosson Financial Services ltd moderated the session.

There is a squeeze in the debt appetite and worried banks are keeping the private sector investments sluggish. It reflected, when despite the falling interest rates, bank credit growth plunged between fiscal 2014/15 and 2017/18. The corporate debt appetite is generally 35-40 per cent of the total credit off take. If we go through this RBI data, year on year data, the credit growth rate is declining. & the growth is expected to come from the infrastructure sector. But for that banks need to come forth.

The second day began with the most relevant topic in the present regime of NDA; Banking the Unbanked. The session was moderated by national co-convenor of SJM, Dr Ashwani Mahajan, where M. V. Nair, Chairman, TransUnion CIBIL, Raman Agarwal, Chairman FIDC, NK Maini, Deputy Managing Director, SIDBI deliberated the developments and needs of the small borrowers. The challenges faced by them especially after the dual attack of demonetisation and GST implementation.

Apart from cleaning up mess in the books of the banks, PM Modi's regime came up with the multi-prong strategy to take the banking services to those residing at the bottom of the pyramid. Days after assuming power, the NDA regime, began the PM Jan Dhan Yojna, opened up saving accounts with the zero balance. Till date, 32 crore such accounts were opened up, and in all they deposited Rs 79,372 Cr. Initially, the bankers resisted this move, as it

32.61 CRORE JANDHAN ACCOUNTS ARE OPENED, 53 PER CENT ARE OF WOMEN AND 83 PER CENT ARE SEEDED WITH AADHAR

was believed to be an expensive exercise.

But sooner this became the lucrative segment for the bankers. Simultaneously, PM Jan Dhan Yojna allowed the new consumers access to various financial services, like remittance, credit, insurance, pension in most affordable manner. There comes -- Micro Units Development Refinance Agency Ltd—PM MUDRA Yojna, one of the most innovative and pro-poor, approach from the bankers. This completely transformed the way, Indian banks operated in 70 years of independent India's history; to bring the funds for unfunded micro enterprises. This new entity is refinancing all banks, Micro-finance Institutions, MFIs and other lending institutions, which are in the business of lending to micro or small business entities, engaged in manufacturing, trading and services activities. In this fiscal, the target set for the banks is to disburse the loans worth more than Rs 3 lakh crore.

In this banking conclave, two sessions were dedicated to the technologies; one of the present and second of the future. On first day, session FinTech for New India, which was moderated by Sh. P Jayakumar, MD, Bank of Baroda, and Vivek Agarwal, Co-founder & principal partner at Square Global, Amit Saxena, CEO, Unimoni, and Sunil Kanoria Vice Chairman, Srei Infrastructure Finance Ltd joined the discussion. & next day, in the session New Dawn : Banks of Tomorrow, Arjit Basu, MD of State Bank of India, Shiv Nath Thukral of Facebook India, Parth Gandhi, Managing Partner of Aion Capital and Sanjay Nayar, CEO, KKR India participated. This session was moderated by prominent public policy advisor Banu Balachandran. The discussion in both the sessions talked about the technological disruptions, which is making sure that the banking in India is changing, this include strengthening of the fundamentals, reforming the norms and widening the consumer base. The second session underscores the need of embedding the modern technology to improve the efficiency of the bankers and banking. Making way for artificial intelligence, internet of things, or IoT, robots or bots, block-chains to know the consumers better, as well as to make the delivery more efficient.

For sure the banks in India are transforming. There was enough insights leading to these hypothesis. But require regulators, banks, consumers and policy makers to understand each other in a better manner. The conclave achieved many of the objectives in very limited scope, it had to play.

Objective

While designing the conclave, the organising team was clear to make it a thought exchange platform, where best of the minds in the country's banking & finance market can come together with academicians, analysts, policy and law makers, academicians, corporate honchos and try to look for path ahead.

This conclave must bring best of the names in the country to build it up as an opportunity to seek solutions to make Indian banks more formidable and strengthened to take on the challenges of the next decade. India is going through a massive transformation in the banks and the financial market, the conclave must bring all the stakeholders on the platform. The clean-up will obviously revive the investment cycle; India will be setting on to 8 per cent plus GDP growth chart.

The conclave is an attempt to address many of the legitimate questions in the minds of corporate houses, executives, start-ups, MSME, policymakers, academicians et al.

1. How bad is the situation?
2. Why it is important to clean up banks?
3. How will this improve the fortunes of the banks, the work culture and approach towards businesses?
4. What should be the right approach?
5. Is creation of big banks a solution, or we need to do clean up before going ahead with the plans of creation of bigger banks?
6. How can banks cater to the needs of development sector? Is there are case of getting into more targeted and focused development banks?
7. What does this clean-up of balance-sheets mean to normal citizen's life and needs?
8. Why previous governments didn't attempt this?
9. How prepared are banks to take on the challenges put by evolving technologies; like blockchains, artificial intelligence, IoT, BOT et al?
10. The base of consumers is widening, how can technology help the modern day needs of the consumer?

Day 1

10:30 – 19:30	**Assemble and Tea**
10:30 – 11:30	**Registration and Healthy Bites**
11:30 – 12:30	**Inaugural Session** **Sh Sunil Ambekar,** National Organising Secretary, ABVP **Sh. Kiren Rijiju,** Member of the Lok Sabha
12:30 – 14:00	**Indian Debt, Indian Problem, Indian Solution** **Sh. Girish Chandra Chaturvedi,** Chairman, ICICI Bank **Sh. Harsh Vardhan,** Partner, Bain & Company **Smt. Ila Patnaik,** Ex-Principal Economic Advisor, Govt. of India **Sh. Jaspal Bindra,** Chairman, Centrum Capital group **Sh. Ravi Kishan Takkar,** MD & CEO, UCO Bank **Moderator:** Sh. Sidharth Zarabi, Managing Editor, BTVi
14:00 –15:00	**Lunch**
15:00 – 16:00	**India and Development Banks** **Sh. B. Sriram,** CEO, IDBI Bank **Sh. Gopal K. Agarwal,** Economist **Sh. Sanjay Nayar,** CEO, KKR India **Sh. Nikhil Sahani,** Group President, Yes Bank **Moderator:** Sh. Ameya Prabhu, MD, Dusenberg Bosson Financial Services ltd.
16:00 – 17:00	**Tea Break**
17:00 – 18:00	**FinTech for New India** **Sh. Vivek Agarwal,** Co-founder & principal partner at Square Global **Sh. Amit Saxena,** CEO, Unimoni **Sh. P Jayakumar,** MD, Bank of Baroda **Sh. Sunil Kanoria Vice Chairman,** Srei Infrastructure Finance Ltd
18:00 – 19:00	**In Conversation: India, Plan 2030 & Banks** **Special Address by Sh. Suresh Prabhu** (Commerce minister, govt of India) through video **Sh. Rajiv Kumar,** Vice-Chairman, NITI Aayog **Sh. Bhupender Yadav,** MP, Rajyasabha

Day 2

09:00 – 09:30 **Re-assemble and Tea**

09:30 – 10:30 **Small is good- Funding the Unfunded**
Sh. M. V. Nair, Chairman, TransUnion CIBIL
Sh. Ashwani Mahajan, National Co-Convener, Swadeshi Jagaran Manch (SJM)
Mr. Raman Agarwal, Chairman, FIDC
Mr. N.K Maini, Deputy MD, SITBI

10:30 – 11:30 **Biting the Bullet-Privatisation Vs Mergers**
Smt. Shyamala Gopinath, Chairman, HDFC Bank
Sh. Rathin Roy, Member, PM-EAC & Director NIPFP
Sh. G. Padmanabhan, Chairperson, Bank of India

Moderator: Sh. Anil Sharma, Non-Executive Director, UCO Bank

11:30 – 12:30 **New Dawn : Banks of Tomorrow**
Sh. Arjit Basu, MD, State Bank of India
Sh. Shiv Nath Thukral, Director, Facebook –India
Sh. Parth Gandhi, Managing Partner, Aion Capital
Sh. Sanjay Nayar, CEO, KKR India

Moderator: Sh. Banu Balachandran

12:30 – 13:30 **A Master Class with Union Minister Piyush Goyal**

13:30 – 14:30 **Valedictory Session: Banks for Rebuilding India**
Report Presentation: Dr Subhash Sharma, Director, CEPR
Vote of Thanks: Dr Ashwin Johar, Vice Chairman, CEPR
Sh. Kashmiri lal Ji (National organising secretary SJM)

14.30 **Lunch**

Inaugural Session

The India Banking Conclave began with the Director, CEPR, Dr. Subhash Sharma welcomed the guests in the event. The chief guest of the session, Minister of State (Home Affairs) Kiren Rijiju, guest of honour, Akhil Bharatiya Vidhyarathi Parishad, Organisation Secretary, Sunil Ambekar and senior advisor for this conclave Gopal Krishna Agarwal joined him to light the inaugural lamp to formally start this conclave.

In his opening remarks, Kiren Rijiju said that the national security is as important as financial security, you cannot claim to be a proud citizen unless financial security is there. Some bold steps on NPAs and drastic measures taken are showing results, however, some of these measures were however pinching certain people. Rijiju said that if India wanted to become a Super power then it would not be possible without good economic condition.

Meanwhile, Sunil Ambekar in his address, the Indian economy is now taking stock of the aspiration of the nation, especially the people. He further said, banks and financial institutions must take initiatives in pushing skills to

Guest of Honour Sunil Ambekar addressing the gathering of Indian banking community in presence of Dr. Subhash Sharma, Kiren Rijiju and Gopal Krishna Agarwal (L-R, Above) Beginning of first ever India Banking Conclave was marked by singing of National Anthem.

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the aspiring youth. He said, the financial institutions need talented youth to take the operations to newer territories, whereas, you aspire for good employment opportunities.

Earlier, Gopal Krishna Agarwal briefed the guests along with all the participants that the conclave is designed as a thought exchange platform, where best of the minds in the country's banking & finance market could come together with academicians, analysts, policy and law makers, academicians, corporate honchos and try to look for path ahead. He said that the conclave would also give an opportunity to project how the present actions would lead to develop a discourse, of how series of actions taken by the regime would reduce the risk on the capital in banks and there was much brighter future in offering.

This would obviously revive the investment cycle; India would be setting on to more than 8 per cent GDP growth chart and in this story, banks would have very positive role to play. The conclave would also try to address many of the legitimate questions in the minds of corporate houses, executives, start-ups, MSME, policy makers, academicians et al. The conclave would address various Non-Performing Assets, or NPAs, development of banks with changing time, privatization versus merger and the future of banking.

“India should not forget context in which the banks must run - the poor of India, MSMEs of India, farmers of India to whom India had an obligation to perform”

PIYUSH GOYAL
Minister of Railways & Minister of Coal, Government of India

“The government doesn’t believe in interreference in banking operations, and the NDA regime has successfully eliminated the practice of calling up bankers to extend the loans to the favourable few”

SURESH PRABHU
Minister of Commerce & Industry and Civil Aviation of Government of India

“The vision of making India a $10 trillion economy is possible, but for that there has to be a rethink on the role banks required to play”

DR. RAJIV KUMAR
Vice Chairman, Niti Aayoga

“The national security is as important as financial security, you cannot claim to be a proud citizen unless financial security is there”

KIREN RIJIJU
Union Minister of State for Home Affairs

“The government fully acknowledged the requirements to bring in the change, this include the legislature and other policy framework”

BHUPENDAR YADAV
General Secretary, BJP

“After PM Modi came into the power, things have started changing. The poor are becoming part of the banking system & the traditional myths around poor as a consumer are changing”

KASHMIRI LAL
National Organising Secretary, Swadeshi Jagran Manch

“Banks and financial institutions must take initiatives in pushing skills to the aspiring youth”

SUNIL AMBEKAR
Organisation Secretary, Akhil Bharatiya Vidhyarathi Parishad

“Those who actually may require funding, doesn’t have a credit history but might be credit worthy”

ASHWANI MAHAJAN
National Co-Convener, Swadeshi Jagran Manch

Day 1

Session 1

Indian Debt, Indian Problem, Indian Solution

As, **Indian Debt, Indian Problem, Indian Solution** was topic of the first discussion session. It helped us in understanding the challenges India was facing; especially in the handling of debt. The mounting piles of bad debts; legacy challenges, identifying bottlenecks, and looks for the solutions. These solutions were at the policy level, with sectorial regulators, courtrooms, and boardrooms. India was uniquely poised, where more public and private sector capital complimented with the debt, would be required to sharpen the growth trajectory as well as usher in development.

The panellists for the discussion were Chairperson of ICICI Bank, G.C. Chaturvedi, ex-Principal Economic Advisor, Government of India, Ila Patnaik; Partner Bain & Company, Harsh Vardhan, CEO UCO Bank, Ravi Krishna Thakkar and the session was moderated by Executive Editor of BTVI, Siddharth Zarabi.

The moderator commenced the discussion, with brief overview of the debt scenario and how the banking system failed to check them. He underlined that the last three years were extremely significant and unprecedented for the Indian banks. He said that the Insolvency

G.C. CHATURVEDI
Chairperson, ICICI Bank

ILA PATNAIK
Former Principal Economic Advisor, Government Of India, Professor at National Institute of Public Finance and Policy

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HARSH VARDHAN
Partner Bain & Company

RAVI KRISHNA THAKKAR
CEO, UCO Bank

and Bankruptcy Code, or IBC and the consequent creation of National Company Law Tribunals, or NCLTs had been a learning experience for the stakeholders. He pointed out the lower Gross Domestic Product or GDP, ratio to debt in India to that of China, US and UK. Obviously, this is impacting the growth trajectory.

G.C. Chaturvedi spoke about the corporate lending system in India was mostly dependent on the banks and merely 20 percent on the bond market. He said the bond market in was not developed properly which had heavily burdened banks in India which caused asset liability mismatch.

Chaturvedi also said that there were times when the banks had already given loans but some licenses had to be cancelled later like in the case of coal mines, spectrum allotment. This was a very awkward situation because the banks had given the money and the project was stuck at incompletion. He said that India needed to find solutions in its setup itself. He further said that since was a federal polity, therefore, there had to some sort of synchronized Indian solution. Moving further, he said that India had failed in creating financial institution earlier, and the only way to bring them back was in some other form, so that long term lending for projects with long gestation period could be made possible. National Investment and Infrastructure Fund was one such example according to him.

Ravi Krishna Thakkar said that the banking system in India was able to foster faith of the general public and had successfully evolved into undertaking activities like Jan Dhan Yojana and met financial inclusion needs to the extent of going for corporate borrowing. Since, the Development Financial Institutions, or DFIs had gone out of the picture, the banks had started doing corporate and long term lending. He said that the banks were not skilled enough to anticipate the long term perspectives of corporate projects but this was not the only reason which aggravated the situation of bad loans in the banking system. There were several internal

and external factors as well.

He further said that the solution was not only in the hands of the bank, a lot depended on the central and state governments. The IBC Code and the NCLT had helped in finding solutions to the lending problems, and the NCLT law was also assisting the resolution of some of it.

Ila Patanaik, said that when Strategic Debt Restricting, or SDR and Corporate Debt Restricting, or CDR did not work then the reforms like IBC should have been brought in quickly. She said, when debt had gone too bad and India was left with few assets then IBC had come into the picture. It was an extreme-

ly bold reform which was required which should be implemented well. She further said that only the Indian banking sector catered to those whose SLR was19.5 per cent which did not happen anywhere. It was a unique Indian SLR requirement where started with financial repression, where, the government wanted to do was to take away resources, to do what it wanted to do. She also emphasised that India did not have proper functioning bond market.

Harsh Vardhan said that India was facing a banking crisis roughly after every ten years and all had the same underlying weaknesses, things like improving governance in banking, very carefully having an oversight and insight structure in banking and et al. He said that none of the problems had been addressed properly. According to him the bad loan problems were just a symptom, and the IBC was partially going to cure it over a period of time. He further said that unless the above mentioned issues were addressed, the coming years would have the 20-27 crises, and the banking sector would be much larger by then, which means the fiscal cost would be even more. This problem arose from the global financial crisis that led to many problems in the banking sector. He said that the governments took monetary fiscal action and withdrew quite quickly.

Session 2

India and Development Banks

PM Narendra Modi & his team focused fulltime on rebuilding the economy with pumping in more funds in the infrastructure. To his bad luck, before 2014 these sectors were almost in coma and marred with series of scams and inefficient decision making. & to bring them out of this state required the private sector capital. The corporate balance sheet was bleeding, the banks were buried in mould of bad debts and non-performing assets. But universal banks lending into the long gestation infrastructure projects too; is a bad idea.

To build up the conversation, Gopal Krishna Agarwal, who is also national spokesperson of BJP's economic affairs and sits on the board of Bank of Baroda sat with MD & CEO of IDBI Bank, B. Sriram, Group President of Yes Bank Nikhil Sahni to look for the ways. The session was moderated by MD of Duesberg Bosson Financial Services, Ameya Prabhu. The discussion revolved around the developmental financial institutions, or DFI and the need for such institutions in present context.

Ameya Prabhu opened the discussion, with remarks that India is a 2.6 trillion-dollar economy and the rate at which it was growing, over

Ameya Prabhu, B Sriram, Nikhil Sahni and Gopal Krishna Agarwal (L to R) discussing on the topic 'India and Development Banks'

the next 7-14 years, it would become a 10 trillion-dollar economy which would be almost a 7.3 trillion dollar of additional growth that would be coming to India. He said that it was also important that this growth trickles down to all sections of society, and did not remain in the top few percentages or the middle sections of society. He said that after 71 years of partition, at various times there had been several DFIs existing in the country like IFCI, ICICI, IDBI which moved into becoming commercial banks which were doing commercial lending, and the old DFI in a way had been diluted.

B. Sriram underlined many of the challenges faced by original DFIs. He goes back to 1948, when country built the first one; Industrial Finance Corporation of India, or IFCI. These institutions were supposed to take care of the risks, as they grew in stature. There was a merit in this, they had access to some cheaper funds, along with certain sops –which were given to investors as well. They had liquidity, SLR ratios going their way, they had private sector exemptions which made it easier for them. They were issuing bonds that were made attractive to them. The government of India made it much easier to raise low cost funding, and most of these enablers which were there were taken out of the system.

Nikhil Sahni said that he fully concur with the point that in terms of the role of DFI at a certain stage with shareholder, there was not enough clarity on the objective in terms of the social value that they bring to the table. He further said that the social value that these institutions were expected to bring were in direct conflict with the interest of the shareholders. And potentially from the year 2005, after which these DFIs had been muted in India, the line share of these DFIs, because they became commercial banks, had to be taken by someone and it was largely taken by the multilaterals and the regional development banks, which you typically associate with social value.

Gopal Krishna Agarwal said that the issues were being tackled by DFIs with regards to the sectoral focus, geographical focus, and the technical evaluation capacity that the DFIs had. They were dealing with specific sectors and had developed good technical evaluation teams that could evaluate projects. He said that ultimately the failure of many projects at the commercial banks was because of no proper evaluation capability at the commercial banks. He said that currently DFIs only had financial evaluation capacity and were depended on outside help for project evaluation. DFIs had developed capability over time. There was an important factor about liquidity mismatch.

He further said that DFIs financing was to the tune of 50% (infrastructure projects), but they had accumulated a lot of bad loans and there were problems with regards to NPAs which were accumulated into DFIs. The regulators, therefore, thought that they did not need it, and the commercial banks could take up these activities. But instead of solving the problems of DFIs, the same problems got carried on to commercial banks.

Session 3

FinTech for New-India

Vivek Agarwal, Amit Saxena and Sunil Kanoria (L to R) in the third session of IBC – 'Fintech for New India' moderated by P Jayakumar. (First)

If one big thing this tenure of the PM Narendra Modi will be remembered, will be the focus he managed to bring to digital economy. The payment gateways, the understanding of the consumers, disbursal of debt to retail customers and obviously this will bring in the age of new financial technology companies, or FinTech as we all know them. They intent to cut massive inefficiency in the system and make business out of it. & in last few years, a big myth was broken that they were limited to automation of financial services. Today, we all see them as a solution to ensure last mile delivery of financial services at minimum cost in the most resource efficient manner.

But in a country, where nearly one third of the population just brought into the banking channel, the scope of growth for these companies is huge; but the road is still bumpy. CEO Unimoni India, Amit Saxena, Vice-Chairman of SREI Infrastructure Finance Ltd, Sunil Kanoria, Co-founder & Principal partner at Square Global, Vivek Agarwal, sat with P. Jayakumar, MD, Bank of Baroda to deliberate the convergence of policy and regulatory framework with evolving

technologies. The banks were rapidly reaching out to most of the Indians. Therefore, the question arose Could technology make their transition towards becoming friendlier for consumers of other financial products?

Jayakumar said that there had been an extraordinary growth of FinTech. It had been facilitated by the growth of an enormous amount of facilitation by the government in several ways. The government have done a lot of changes with respect to the foreign investments, which enabled facilitation of law of capital both domestic and foreign for FinTech ideas to bloom.

Sunil Kanoria in his remarks said that India had evolved very fast in the past few years. He said that the present Modi government had really pushed a lot of change for digital development in the country. This had acted as a very powerful tool more particularly for countries where the financial services have not been able to reach to the last mile. He said that the government and the industry should work together to create mechanism on the regulation side. According to him, there were two parts of it, liability and asset. A lot of work had happened on the side of liability which included payment into gateways in terms of e-wallet, transactions over mobile, and other such services.

He said that on the asset side there was a lot of lending which had started. Slowly, a lot of evolution which was working out in the B2C (business to the consumer) side. He said that a lot of opportunity was also there in the B2B (enterprises side in the businesses). One of the key strength which FinTech could provide was the risk engine. The kind of transactions that took place, partnering with banking systems could make the risk engine a lot more robust and evolved using Artificial Intelligence, or even data analytics. He said that the cost-benefits to the system and the economy when one reduced the cost of risk could be imagined. Then the interest charged to consumers and enterprises could come down substantially. This could lead to huge value additions to the economy and to the system that FinTech could provide.

Amit Saxena said that in the last few years, FinTech had taken great strides, and one of the things that came into the picture was how to get all these technologies together across the financial services spectrum, whether it was lending, payment services, or wealth management, and get more and more customers into the net. UNIMONI wanted more people to come into the net of financial services, and that was how we would all grow as a country. India had only about 15 percent retail debt to GDP penetration. He added that almost 80 percent of small businesses did not have access to the formal financial services. Use of technology to add more and more people at the ease of financial services.

FinTech was used essentially for two things: access and assessment. He said that in the last three- four years, India had seen quantum jump in FinTech, whether it was being in terms of reaching out to people, or in terms of the technology highway that the government was trying to create through bank accounts, ADHAAR, or mobile transactions. But this was still more prevalent in large cities, and available to the higher strata of the society. And that was the challenge that India needed to accept. He added that apart from the technology that was available, India also needed to make changes in the business model, and the way it approached business to make financial services accessible at a more affordable rate.

Vivek Agarwal said that the FinTech had been in existence for some years. He said that the Indian banks were the early adopters of FinTech. They started with this FinTech revolution, but had slowed down during the years because of the sheer size of their institutions. He added that the after the emergence of start-ups, various parts of the value chain were disrupted. FinTech brought speed, efficiency, access, and assessment to the picture, while also reducing the cost.

He added that because of their sheer size, banks followed a traditional credit assessment, they had a collateral based working model. They perceived this new technology too high risk and informal. The of banks were incubating start-ups, and helping them. He added that they were providing access to their customer base, and helping them commercialize and stabilize the technology.

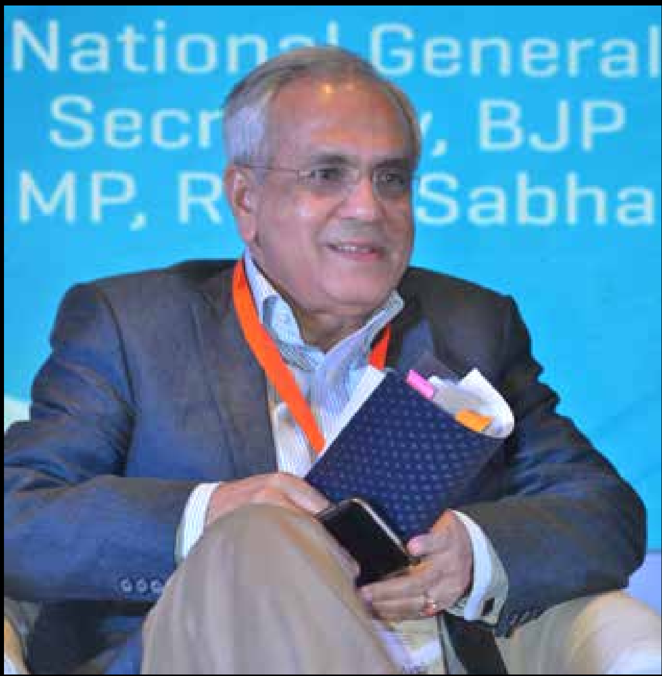
SUREST PRABHU (Video Conference)
Minister of Commerce and Industry, Civil Aviation, Government of India

In Conversation

India, Plan 2030 & Banks

Originally, the idea was bring in Commerce and Industry Minister, Suresh Prabhu, NITI Aayog, Vice Chairman, Rajiv Kumar and Bharatiya Janta Party's General Secretary, Bhupender Yadav in this session. But Prabhu had to opt out, as he went to Kenya on an official tour. But he was gracious enough to send a special video message. In his message, he said that today India require a vibrant and dynamic banking, which is transparent and forward -looking. Prabhu emphasised that the country requires to reinvent the banking system. He added that the government's doesn't believe in interreference in banking operations, and the NDA regime has successfully eliminated the practice of calling up bankers to extend the loans to the favourable few.

Meanwhile, taking the conversation further, Rajiv Kumar the vision of making India a $10 trillion economy is possible, but for that there has to be a rethink on the role banks required to play. Especially in the current economic situation. To make the vision of reaching $10 trillion mark quickly, we all need to put our head together, he said. Rajiv Kumar underlined the fact that the momentum of growth will come from micro, small and medium enterprises, and this growth will also create more jobs. There is a need to develop these enterprises, a more benign eco-system around them is required. This also means an environment where the cheaper and easier capital is accessible for them.



DR. RAJIV KUMAR
Vice Chairman, NITI Aayog

BHUPENDER YADAV
General Secretary, BJP

Rajiv Kumar in his address also said that the banks need to introspect and see if they can assist the churning in the agro-economy, and anchor some of the changes required there.

He underlined that the debt to GDP ratio is abyssally low in India, even if we compare it with sizable economies. Baring a few states where the ratio is encouraging. He said that the small and smaller enterprises still find ways to avoid credit, even if they need it to grow. & the corresponding behaviour is there among the bankers as well, they want to play safe. These bankers prefer to extend credit only to big borrowers. He said, the credit portfolio of the bankers have only 14 per cent of small borrowers. There is need to understand requirements of these small borrowers and extend the help and assistance required there. He said that India needed to bring changes in the banking sector of the country if it wanted to accomplish its dream of becoming a 10 trillion-dollar economy.

He said, Reserve Bank of India, or RBI doesn't understand the ground realities. The reality of today is that we have to become four times our size in next decade or so. & for that we need a massive credit growth. RBI also is pushing the implementation of BASEL III norms, which is bound to create more complications for the banks to maintain the capital adequacy ratio. Our banks are solid enough and even during the 2008 crisis our banks had shown great resistance and survived. Certainly, the challenge doesn't live in our banks. RBI must ensure that it works in tandem with the economic needs of the country.

Meanwhile, Bhupender Yadav said the party and NDA government is committed to make the banks and financial institutions strong and healthy. He said that the government fully acknowledged the requirements to bring in the change, this include the legislature and other policy framework. Sharing his experiences, he said that bringing in changes were never easy. He cited an example of Insolvency Bankrupty Code, or IBC. He said that formation of IBC was suggested in 1960's law commission report but it took almost 57 years to brought it to action. He further said that there was no resolution mechanism in the banking system earlier in India. He said that we needed to make amendment in the law as per the changes and development of the market.

Day 2

Session 1

Small is Good- Funding The Unfunded

As the session's name suggest the focus of the discussion remained on increasing the credit and bank products to the bottom of country's economy. Dr Ashwani Mahajan, National Co-Convener of Swadeshi Jagran Manch anchored the discussion, with CIBIL TransUnion's Chairperson, MV Nair, Chairman of Finance Industries Development Council, Raman Agarwal and ex-deputy managing director of SIDBI, NK Maine to understand the lending patterns with banks and non-banking finance corporation. With squeeze in the liquidity, we all understand that the most of the projects are heading towards the alternative finance, but at the bottom of the pyramid the access to credit is still a challenge.

Setting the tone, Dr. Ashwini Mahajan emphasised that those who actually may require funding, doesn't have a credit history but might be credit worthy. The discussion revolved around identifying ways to reori-

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Dr. Ashwani Mahajan moderating a session with Raman Aggarwal, MV Nair and NK Maine on the topic 'Small is good – Funding the Unfunded'.

ented banks to make best of the widening of the consumer base. There was a strong lobby, which continued to believe that taking the banking to the underprivileged was a great social cause, but was economically and financially riskier. The PM Jan Dhan Yojna brought in 32 crore new consumers, and deposits of Rs 79,372 Cr. Similarly, the PM Mudra Yojna targeted to disburse Rs. 3 lakh crore to small and micro enterprises. Was this good enough to subside a section of bankers' reservation of these services are riskier and cost inefficient? How social good could transform into good business activity were the most pertinent questions?

Raman Agarwal, discussed on the Non-Banking Financial Company, or NBFC. He said that NBFC's key model was to fund the unfunded and it had followed its model well which was the key to their success. He said that according to Reserve Bank of India, or RBI's financial market stability report of March 2018, NBFC had managed to acquire third position in the Indian Financial System

Imminent personalities from across the spectrum of banking financial circuit marked their presence at the India Banking Conclave 2018.

with Rs 22 lakh crore of the balance sheet size. He said that the growth in net profit was almost 30 per cent, while the Non- Performing Asset, or NPA level stood at somewhere close to 4 to 5 per cent as against the rising figure of 9 to 12 per cent of the banking system, against the prescribed capital adequacy of 15 per cent. He further discussed on the intangible asset based lending, here intangibles meant the receivables. He said that what the receivables of the person were, his cash flows and more importantly the Intellectual Property Rights. So based on that there were marking charges on the IPR system as well. He pointed out one of the biggest challenge for any start-ups was asset creation, basic capital. The person could not be expected to have a capital expenditure to buy big assets. He said that in India leasing was taxed shabbily. Leasing could take care of capital asset formation for MSMEs, for farm sectors, infrastructure and et al. He said that the concept of leasing in India needed to be driven forward.

M.B. Nair discussed on the Micro, Small and Medium Enterprises, or MSME's growth. He said that the growth of MSME was the highest last year. It was 9 percent, the previous year it was only 4 per cent. In case we

to Rs. 100 crore 6 per cent, over Rs. 100 crore, the gross NPA is 18 per cent. He said that the gross NPA in this sector had not gone up. He said that after the Goods and Services Tax, or GST came into the picture there was a clear formulation which had happened in the industry. There were 51 million MSME registered units, out of which five million units had been extended credit by the lenders.

NK Maine said that funding the unfunded had been an issue with various governments right from the independence. He said that after the nationalisation of banks, the intent during the first phase 1969 and the second phase 1980 primarily was funding the unfunded. Setting up of National Bank for Agriculture and Rural Development, or NABARD, self-help group movement which brought together groups of poor women to fund them as a group were few examples. RBI defined microfinance as the provision of thrift, credit, and other small financial services to the poor, both in the urban and rural areas, to provide them with a livelihood and to improve their standard of living.

Small Industries Development Bank of India, or SIDBI also played a significant role in this regard. He said that this was the framework out of which finally Mudra Bank emerged. Post all these initiatives, Mudra built a platform over the years in terms of the banking sector lending to this segment. He further said that Mudra Bank was set up with an intent of funding the six odd crores informal sector enterprise in the country. Informal sectors are springing up in every nook and corner of the country. They are diversified and spread all over the country, and Mudra Bank was set up with the intent that it will provide loans up to Rs 10 lakh in three categories–Shishu, Kishore, and Tarun. The role of Mudra Bank was to define products which would help these Non- Banking Financial Company, or NBFC and similar organisations to fund the unfunded.

classified Rs. one crore or below which was the smallest borrower, it was 22 per cent growth last year. Rs. 1 crore to Rs. 25 crore, the growth was 13 per cent. He further said that the growth in the category of Rs. 25 crore to Rs. 100 crore was 7 per cent, while in the category of more than Rs. 100 crore, the growth is 6 per cent. So, the good news was that lending was happening to the small borrowers. He said that as per the gross NPA figure, again small borrowers were in profit.

At Rs. 1 crore and below the gross NPS last year was 8.8 per cent, in the category of Rs. 1 crore to Rs. 25 crore 11 per cent, Rs. 25 crore

Session 2

Biting the Bullet Privatisation Vs Mergers

In **current context** –the decision of whether to go for privatisation or merger of banks--, the experience of the government is nothing short of biting the bullet. There are no easy solutions. The strengthening of banks is required going forward. The discussion was aimed to evaluate the best option for the banks to come out of the bad debt and Non-Performing Asset, or NPA mess. There is a model where the State Bank of India's merged all their affiliate banks and became behemoth is an option or IDBI Bank getting funds pumped from the state promoted insurer LIC is a way forward. Or at this time, the government should start evaluating the other options as well. It made sense to deliberate these issues when the government would actively look at ways to recalibrate & capitalise banks.

The session had ex-Deputy Governor of RBI and Chairperson of HDFC Bank, Shyamala Gopinath, Member of PM's Economic Advisory Council and Director NIPFP, Rathin Roy, and Chairperson of Bank of India, G. Padmanabhan with moderator Independent Director UCO Bank and prominent CA, Anil Sharma. As expected, this was a lightening session from the start.

Shyamala Gopinath said that currently, the Public-Sector Banks, or PSBs were facing huge challenges in terms of asset quality, lower productivity in the banking sector and governance. She suggested that all the PSBs should be brought under the Companies Act to have uniform legislation. She said that it would be-

Dialogue on the topic 'Biting the bullet: Privatization versus Mergers' among Rathin Roy, Shymala Gopinath and G Padmanabhan (L to R) being moderated by Anil Sharma (First to left).

come easier for the government to take steps like privatisation, change in the structure and et al at the right time. She also said that there was no use of so many PSBs, rather India could have fewer but stronger PSBs.

G. Padmanabhan, Chairman Bank of India in his deliberation raised few issues. He said that when the Indian public sector banks were not in the position of merger then there was no use of discussing it. He said that the issue which India was facing was not recent but it had started taking shape since 1991. He said that International Monetary Fund, or IMF interference should be avoided to an extent in the Indian Banking sector. He said that during the Asian crisis, IMF's mantra was to remover money control which proved wrong. Therefore, instead of listening to what the IMF suggested, India should have thought regarding the solutions. He said that it was high time, India should think regarding the core issues faced by the PSBs first then consider the solutions.

Rathin Roy, Member Economic Advisory Council to PM and Director NIEFP said that the IMF was the result of nationalisation of banks. He said that the public-sector banks had the task of completing the work assigned by the government. Also, the government could compensate for the losses of these PSBs from taxpayers' money. He further said that the Nationalisation of banks happened in 1969 happened with a purpose. The Public-Sector Banks certainly had a role to play but there is no place for tendency of creating NPAs.

Session 3

New Dawn: Banks of Tomorrow

Taking leap from the last two days of intense discussion on the past and present of the Indian banks, this session started talking in the future tense. The future of banks, banking, funds, consumers and the understanding of these fundamentals. As the moderator of the session Banuchandar Nagarajan, an expert on the public policy, puts it in his opening remark that the discussion will help us in developing our understanding in the two strains; a) how technology is making leaps and bounces to make human efforts –physical and mental— easier in the financial markets, especially banks & b) how ready are Indian banks to adopt and adapt them to make their delivery of services and operations more efficient. The banking sector globally is making way for technologies, such as block chains, artificial intelligence, internet of things, robotics, bigdata.

The panel had some of the fantastic speakers, who did cutting edge work in their own space and understand the flow of funds. This include the CEO of KKR India, Sanjay Nayar, Arjit Basu, MD of country's largest bank State Bank of In-

dia, Shivnath Thukral erstwhile journalist and public policy expert from Facebook, and Parth Gandhi, CEO of Aion Capital. Thakural entered the discussion, with his references to the VUCA model, where he explained that the acronyms volatility, uncertainty, complexity and an ambiguity come together and become applicable in the rapidly changing technology. He acknowledged the banks in India are moving towards accepting the technology, but glass is still half full. India needed to redefine the paradigm of banking from a technological point of view. He said that the distance between a tech company and banks is narrowing. And to surprise of many it is happening much quickly.

Nayar of KKR India added that the banks in the country is bound to take the technological leap. He added that the system will have to be created to make the depositing of money, investing money and borrowing money be made not only easier, but efficient too. He added that banks in India had to play a complex role. Along with reforms, the investment in the technology is required to make things much easier to understand. He added, if small lending needs to get deeper in the economy, the digital platforms will have to pave the path. He laid emphasis on the regulation and regulatory support for this to happen. He said that India had a robust digital banking system but India needed to reduce the regulation in terms of digital banking. He said that the last amendment in the banking regulation act was made in the year 1949. Therefore, the changes are required to be made in accordance with the present requirements.

Parth Gandhi of Aion Capital hope that the advancements in the technology and its adoption will help reduce the burden of banks, making its services simple, flexible, secure and fast. The foundation stone had been laid by introducing digitization in the banking sector. He added that the Indian banking needed to be friendlier to its consumer side. He said that a lot of development had been done in the fast few years in the Modi's regime but a lot more was needed to make banking system consumer friendly and technologically advanced. The intersection of technology and finance had brought revolution in the world. Digital lending and v-cash became possible. He said that a lot of banks were buying enablers (FinTech) like Axis bank bought Freecharge. These FinTech were enablers which were decreasing the risk ratio of banks in small lending.

Meanwhile, Arijit Basu of SBI said, globally a fact is accepted that India and China are the two countries, which has a potential to shape the global economy at least in midterm. India is the sixth largest economy in the world, it has immense potential because of the demographic dividends. India's per capita GDP is around $2000 and it is increasing gradually. Basu said that India require reforms in the banking sector. It was very important to wisely use the technology for the development of the bank. He added that in getting better returns as well technology would play an integral part of banking. Many banks had started to convert from a manual system to digital. He said that there was a two-three area where the Indian banking system could change.

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A Master Class with Union Minister Piyush Goyal

This was the special session with Railways and Coal Minister Piyush Goyal. Just two days before the conclave, Goyal was filling in for Finance Minister Arun Jaitley who was recouping from surgery for three months. He said that India should not forget context in which the banks must run - the poor of India, MSMEs of India, farmers of India to whom India had an obligation to perform. He said, in the last four years, banks had been given full freedom to work, no interference from the political side was made. He said that While the NDA-2 Govt. under PM Narendra Modi decided to clean up the banking system, Indian Bank stood strong and did not have to go through stress that most other Public Sector banks had to go through. He said that Indian and indigenous approach was being adopted to solve problems of the banking sector. He also pointed out that nowhere in the world, the government was running banks other than India.

He said that besides the banking industry, the government was supporting farmers, industry, business and many other investment seeker entities. From tiny, medium and big enterprises, all of them got finance from banks. He said that earlier the PSBs had to suffer the interference from the government in appointment of management of Public Sector banks and then subsequently in the operations of these banks. He said that the Indian banks had played a great role in the growing economy. But sometimes the challenges under which the PSBs had performed tend to belittled. He said that from that past few years, the development financial institutions were supporting farmers and promoting the industry to meet the needs of India's consumption.

He said that GST, demonetisation, insolvency and bankruptcy act were being implemented in promoting honesty in the banking sector. After the Insolvency & Bankrupt code, in the first 32 accounts that were resolved, the recovery had been upwards of 55%, the cost of recovery was down to less than 1% , and usually the recovery happened within 12-15 months.

Valedictory Session

Banks for Rebuilding India

Subhash Sharma, Kashmiri Lal and Gopal Krishna Agarwal keenly listening to the thoughts of Union Minister Piyush Goyal on the valedictory session of the India Banking Conclave.

The two days of intense deliberations, on almost all aspects of country's banks, came to an end. National Organising Secretary of Swadeshi Jagran Manch (SJM), Kashmiri Lal chaired the valedictory session, where director of CEPR, Dr Subhash Sharma and senior advisor for this conclave Gopal Krishna Agarwal presented the outcome and way forward for the banks. Dr Sharma, advocated that CEPR will continue to research, deliberate and present papers on the banking sector reforms and their impact on the flow of funds.

Meanwhile, in his address, Kashmiri Lal said, the people of India always trusted public sector banks. He said that the even after outburst of various scams in the banking sector, no glass of the banks was ever broken. This reflects the immense trust that these banks have gained among consumers at large. Therefore, by resolving the issues which the Indian banks were going through, trust which was built must be strengthened. He hoped that if the banks are able to resolve many of the issues discussed during these two days of deliberations, it will only help them to gain the trust further. He underlined that after PM Modi came into the power, things have started changing. The poor are becoming part of the banking system. & the traditional myths around poor as a consumer are changing. Now he needs to be made aware that banks can play a pivotal role in changing his fortunes, the products of the banks need to be tailored for him and must reach him.

Presenting the outcome report, Agarwal said,

- The banks must encourage the entrepreneurship. There is need to understand his challenges.
- He added that the trust which people in India have on banks is the core of the banking system in the country. & this must be retained.
- There is a need to understand, what should be classified as non-performing assets, this is for sure not an accounting issue. A deeper understand is required, to analyise that if the entity is actually unable to pay or the entity was unable to pay at a point in time and situation might have improved now.
- The government move towards insolvency and bankruptcy code is appreciable; it was much required in the present context.
- But the IBC is work in progress, and must not be understood as an accomplished task.
- There are amendments were required to make it more dynamic, which the government must work out quickly.
- The Development Finance Institution, or DFI is a big gap. This is a vacuum, which needed to be filled. There are challenges of the borrowing cost, which is required to be worked out.
- The FinTech reduced cost, provide speed, fewer transactions and low response time.
- The initiatives like Application Program Interface, or API and hashtag 99 were few goods steps taken for the banking system.
- The banks are an important tool and they must look for innovation to cater to the needs and demand for capital in the rural and agriculture sectors.
- The banks' attitude towards the micro, small and medium enterprises needed to be changed. There is need to pump in more credit in this sector –this requires not only improvement in access but also quality of capital.
- Producing credit history & worthiness for such enterprises is not always possible. A better eco-system for the NBFCs can play a good role here.
- The privatising the public sector banks is no solution. These banks are required to first consolidate and correct the problem prevailing in the system.

KASHMIRI LAL
National Organising Secretary, Swadeshi Jagran Manch

GOPAL KRISHNA AGARWAL
National Spokesperson (Economic Affairs), BJP
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