

Aim at being the best: RBI Governor exhorts Indian Financial System

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"We have the comparative advantage, we have the resources, we have the manpower and we also have the respect of the world to make our financial system the best in the world. But the task is not easy." Stating this Dr. Bimal Jalan, Governor, Reserve Bank of India appealed to the National Institute for Bank Management and the banking community to debate and come up with a blueprint for the future of the banking system in India in say, another 10-15 years. The Governor was addressing chief executives of commercial banks on the occasion of the Annual Day function of the National Institute of Bank Management held in Pune today.

The Governor pointed out that it is possible to make the Indian banking system the best even if it retained its public sector character. Citing examples of other central banks, such as, Federal Reserve, European Central Bank and the Bank of England, the Governor stated that though these were publicly owned, they were able to deliver their mandate as the instrumentalities through which they would achieve these objectives were completely left to them once their choice of objectives was made. Autonomy and independence along with clearly stated objectives were important in this regard.

The Governor further stated that the public sector character of the banking system had certain advantages. It has made it less vulnerable, it has also given it a wide reach and given it an established institutional structure. It has, however, also brought along some costs, such as, rigidity, inability to respond quickly to changing environment and constraints on the human resources front, he added and urged that the Indian banking system must strive to reduce the disadvantages and to maximise the benefits.

The Governor pointed out that issues such as, meeting international standards on capital adequacy, transparency, disclosures and technology were no longer a matter of choice if the Indian banking system wanted to be globally competitive. Stating that the Reserve Bank had taken several initiatives on introducing greater transparency in the Indian financial system, he added that it was equally important for the banks to put in strong internal controls and asset-liability management systems in place. He pointed out that in a more competitive, cost efficient, transparent environment, the Indian banking system may lose out if it was not able to withstand the scrutiny of international analysts who evaluated the banking systems globally on internationally prescribed standards. According to the Governor, meeting global standards of prudential norms, transparency and disclosure norms, reduction of non-performing assets, infusing technology to bring in more efficiency in terms of time and costs in banking transactions and relooking at the system of recruitment, promotion and rewards to get the best out of the human resources are some of the challenges faced by the banking industry today.

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