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Against the backdrop of a challenging global and domestic environment, Utkarsh 2.0 commences from 2023, when India assumes the G-20 Presidency.

Like Utkarsh 2022, Utkarsh 2.0 sets out strategies and milestones under six visions which will guide the Bank along this roadmap to achieve its goals. We are guided in the endeavour by the light shone by the words of Mahatma Gandhi, means are more important than the end; it is only with the right means that the desired end will follow [1] .

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I.4 Utkarsh 2.0, the Strategy Framework being put in place for the period 2023-25, sets out the priorities, activities, and desired outcomes under each of the objectives of the Bank for the period between 2023 and 2025. The framework for Utkarsh 2.0 has been recast to make it sharper and to ensure that there are no overlapping terminologies. It is built on similar lines as Utkarsh 2022 and will carry forward the current agenda while proactively addressing future challenges. While simplifying the structure to avoid redundancy, the revised structure consists of three layers, viz., Visions, Strategies and Milestones which will assist in the focused monitoring (Chart II.1).

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I.6 The core purpose in Utkarsh is to foster monetary and financial stability keeping in mind the objective of growth and to ensure the development of an efficient and inclusive financial system. This reflects the Bank's commitment to the nation to:

- foster confidence in the internal and external value of the Rupee and contribute to macro-economic stability;
- regulate markets and institutions under its ambit to ensure financial system stability and consumer protection;
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II.2 The objective of the Bank's vision is to achieve excellence in executing its functions including formulation of monetary policy, regulating and supervising the financial system, managing foreign exchange, issuing currency and regulating and supervising payment and settlement systems. An abiding endeavour has been to strive for improvement and innovation in disposition of these functions because of which the Bank has evolved as a "full service central bank" [5] . The reputation of the Bank is critically dependent on the timely and excellent discharge of its functions.

II.3 Vision 1, therefore, is significant under the strategy framework. It has 24 strategies. The focus is not only to perform all the functions tasked to the Bank, but to perform them consistently well. The strategies under Vision 1 are given below (Table II.2).

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II.4 An important pillar for effective delivery of the Bank's functions is the trust of all stakeholders. The perception of citizens and other market participants that the Bank is capable of and is doing the right things at the right time and in the right manner is important for enhancing the reputation of the Bank as a public institution. It is in this context that continuous efforts are made to strengthen the trust of citizens and institutions in it by improving the transparency of functions, better and effective communication and reach, constant engagement with all relevant stakeholders, enhanced consumer awareness and efficient grievance redress mechanisms.

II.5 Towards this objective, the Bank proposes to ensure its presence in all the states; ensure that complaints against its regulated entities are heard and redressed in a time-bound manner; and the compliance culture among the regulated entities is improved through expeditious discharge of the enforcement function.

II.6 Dissemination of information to the public goes a long way in reinforcing trust and assuaging apprehensions. The Bank will have an informative, well-designed and constantly evolving website. Feedback will be obtained, and the impact of the Bank's public awareness initiatives will be assessed. This Vision has 8 strategies. The strategies under Vision 2 are given below (Table II.3).

Vision 3: Enhanced Relevance and Significance in National and Global roles

II.7 The Bank has an important role to play in national and global fora such as the International Monetary Fund, the Bank for International Settlements, the Financial Stability Board, the G-20 and the like. Vision 3 sharpens and augments the Bank's focus on international financial diplomacy and participation in formulation of global regulatory standards in a proactive manner. The Bank will also continue its initiatives in articulating its stance and views on major global economic and regulatory policy issues, highlighting India's specific characteristics.

II.8 The Bank shall maintain strong engagement with the committees under the Bank for International Settlements and host associations in the context of the Basel process and payment system initiatives. It will broaden its economic analysis and research to include new themes. The Bank will engage with central banks in the innovation space to explore the practical implications of new technological trends. The Bank's brand equity will be enhanced by internationalising Bank's Payments Stack across all dimensions.

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Vision 4: Transparent, Accountable and Ethics-Driven Internal Governance

II.10 Internal governance contains an organisation's formal set of structures, communication lines, procedures and rules to ensure that its moral code is followed. It includes values, beliefs and practices that guide and inform the actions of all the employees in an organisation. The key pillars of sound internal governance are integrity, transparency, trust, accountability mechanism, ethical conduct and sound processes and practices. Sound internal governance has the potential of attracting the best talent and motivating existing employees to give their best.

II.11 Openness and accountability are increasingly recognised as fundamental qualities of good governance. The Bank shall continue to strive to achieve transparent, accountable and ethics driven internal governance by strengthening its strategy framework and business continuity management, upgrading internal control measures, assessing emerging risks and adopting international best practices of enterprise risk management.

II.12 Through this vision, the Bank documents its values, including its commitment to integrity, fairness, transparency, and ethical conduct. The Bank shall also undertake periodical evaluation of the policies and update them considering the feedback received and the evolving scenarios in which it must operate. Adherence to accountability mechanisms will be reviewed at regular intervals.

II.13 The strategies under Vision 4 are given below (Table II.5).

Vision 5: Best-in-class and Environment-friendly Digital and Physical Infrastructure

II.14 The physical and digital environment is essential for a financial system to function well and for an employee to perform his / her duties efficiently. From a financial sector perspective, it includes a robust infrastructure for markets to operate at ease and in a non-disruptive manner. From the employee perspective, it includes not only the office premises but also the IT setup, the residential arrangements and so on.

II.15 Integrating architectural excellence and aesthetic appeal with green ratings in the premises of the Bank, while ensuring the highest level of cleanliness and physical security and automating processes, achieving the integration of information, and ensuring dissemination through a robust Information Technology (IT) system will enable the Bank to move towards best-in-class and environment friendly digital as well as physical infrastructure.

II.16 The strategies under Vision 5 are given below (Table II.6).

Vision 6: Innovative, Dynamic and Skilled Human Resources

II.17 Human resources are the prime drivers of any organisation and they play the most important role in defining its success. The constantly changing environment in which the Bank operates, and the changing needs of the economy require the staff to be competent and equipped with cutting-edge skills. Skilled and dynamic human resources are the foundation and pillars which will enable the Bank to excel in performance of its role effectively.

II.18 The world of human resource management is changing in terms of demographic shifts, work from home culture in a volatile environment requiring constant innovation. The strategy framework strives to create an innovative, dynamic and skilled human resources; use technology and data analytics in promoting research-based decision making; build a proficient and facilitative employee interface for effective communication; positive workplace experience, and enhanced employee engagement; establish a listening oriented organisation culture to promote better employer-employee relationship; and capacity building through a robust online training mechanism focused on continuous learning.

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Chapter III

Conclusion

III.1 As we embark upon the journey of realising Utkarsh 2.0 and thereby the Bank's medium-term strategies and milestones, continuous evaluation and constant engagement with relevant stakeholders will be required. Utkarsh 2.0 leverages the learnings from the existing medium-term strategy framework but with a simplified structure and well-defined milestones. Utkarsh 2.0 enables the Bank to be in readiness not just to respond to the changing socio-economic environment, but also proactively anticipate and act.

III.2 The vision of excellence in the performance of its functions envisages strengthening the regulatory landscape for the well-being of the financial sector while the visions of strengthened trust of citizens in the Bank along with transparent, accountable and ethics-driven internal governance provide the wherewithal for sustaining excellence within the Bank.

III.3 Regional Offices' perspectives are an integral part of the six visions. This is reflective of inclusiveness in the strategic approach of the Bank, incorporating a 'feel' of the states and a knowledge of regional realities in the collection of market intelligence, ensuring localised supervision, and providing last mile customer service. Regional offices provide meaningful inputs defining micro-aspects in the macro-strategic approach [7] .

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III.6 In this age of data, the Bank plays the dual role of data collection as well as information dissemination. With this comes the responsibility of reliability of data collected to create meaningful and accurate information. Therefore, adoption of Artificial Intelligence (AI) and Machine Learning (ML) driven tools for data analysis and information creation will be an integral part of Utkarsh 2.0.

III.7 The achievement of the milestones under the Utkarsh 2.0 will strengthen the regulatory landscape for the well-being of the financial sector and enhance the trust of citizens in the Bank. The strategy framework will also make the Bank a listening oriented, transparent organisation equipped with best-in-class and environment friendly digital and physical infrastructure. This will also contribute to better employer-employee relationship. Robust internal governance, effective risk assurance, fostering of risk culture will be the cornerstones of the Bank's tryst with excellence. As such, Utkarsh 2.0 will act as the pole star helping the Bank to constantly evolve in sync with the ever-changing world. In the words of Mahatma Gandhi, "You must be the change you wish to see in the world [8] .

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In recent times, especially since the outbreak of the COVID-19 pandemic, central banks – who are at the core of monetary and financial systems – have been called to do "heavy lifting" well beyond their traditional mandate. Central banks have navigated through unchartered waters during the three black swan events – the pandemic, the war in Ukraine and the unprecedented scale and pace of global monetary policy normalisation – all in the span of three years. More recently, central banks had to quickly change gears from providing stimulus to pandemic ravaged economies to battling inflation with all ammunition at their disposal. Even as the battle against inflation was ongoing, the banking turmoil in certain advanced economies (AEs) posed the awkward trade-off between financial stability and price stability. This extraordinary period of global turbulence has indeed been extremely challenging for central banks and central banking.

2. In my address today, I propose to highlight the Reserve Bank of India's response to the multiple challenges of COVID-19, surge in inflation, growth slowdown and threats to financial stability. I also propose to enumerate the lessons learnt which may become a part of central bank operating procedure for such events in the future.

COVID-19 Response

3. The COVID-19 pandemic scarred the global economy, causing unimaginable loss of life and livelihood. In India, our response amidst the imposition of nation-wide lockdown and social distancing was prompt and decisive. We were perhaps amongst the first few central banks to have set up a special quarantine facility with about 200 officers, staff and service providers, engaged in critical activities to ensure business continuity in banking and financial market operations and payment systems. Our monetary policy committee (MPC) reacted swiftly by reducing the policy repo rate sizeably by 115 bps in a span of two months (March-May 2020). Unlike advanced economy (AE) central banks which eased rates close to the zero-lower bound, we did not reduce the policy repo rate below our inflation target of 4 per cent. Together with other actions in the liquidity front, this helped us in supporting growth without fuelling inflationary pressures. This also helped in undertaking a faster reversal of stance later, without being market disruptive.

4. Along with the rate cuts, we infused significant quantum of liquidity through both conventional and unconventional measures to stimulate the economy, restore confidence and revive market activity, while being mindful of the need to ensure that our liquidity augmenting measures do not engender future fragilities. Our liquidity measures were unique in several ways: first, liquidity was provided only through the Reserve Bank's counterparties (banks) for on-lending to stressed entities/sectors; second, asset purchase programme was for a limited period of six months and much smaller in size than advanced economies, and was confined to government securities only; third, collateral standards were not diluted while offering lending facilities; and fourth, loan resolution frameworks for COVID-19 related stressed assets were not open ended but subject to achievement of certain financial and operational parameters. Moreover, most of our liquidity injection measures had pre-announced sunset clauses, which helped in an orderly unwinding of liquidity on their respective terminal dates without de-anchoring market expectations. Overall, liquidity enhancing measures worth US$ 227 billion (8.7 per cent of GDP) were announced, of which funds availed were US$ 157.5 billion (6.0 per cent of GDP).

5. The liquidity infusion measures were mostly concentrated in 2020 but continued in 2021 in view of fresh waves of the pandemic and the fragile nature of economic recovery. Nevertheless, surplus liquidity was gradually migrated from the short end to the longer horizon during 2021 through variable rate reverse repo (VRRR) auctions of longer tenors, which lifted short-term rates from ultra-low levels, thereby obviating financial stability challenges. This was done by sensitising the market well in advance through effective communication. Further, recognising that the yield curve is a public good, the benefits of which accrue to all, we undertook outright asset purchases and operation twist [1] – which were generally liquidity neutral – to modulate long term G-sec yields. This, in turn, lowered rates on all instruments benchmarked to prices of the G-sec yield curve. The resultant congenial conditions allowed corporates to mobilise large resources and repay high-cost debt from banks. Such deleveraging by corporates reduced their balance sheet vulnerabilities and facilitated credit offtake later in 2022-23. The benign liquidity conditions also enabled the banks to mobilise additional capital and strengthen their balance sheets to withstand future stress, if any.

Inflation Challenges

6. At the height of the pandemic during 2020 and 2021, the MPC prioritised growth over inflation, given the frail economic conditions and notwithstanding intermittent inflationary pressures from supply shocks. For instance, supply-side pressures had nudged inflation above the upper tolerance band of 6 per cent in October 2020 and there were market concerns over the continuation of the accommodative monetary policy stance. Under these circumstances, we provided both state- and time-based forward guidance on continuing "with the accommodative stance of monetary policy as long as necessary – at least during the current financial year and into the next year ..." as output remained well below its pre-pandemic level. In the second half of 2020-21, inflation eased in line with our assessment as supply side pressures abated. The time-based element of the guidance helped to anchor market expectations and moderate undue expectations building up at that time of a possible reversal of the monetary policy stance.

7. In early 2022, inflation was expected to moderate significantly with a projected average rate of 4.5 per cent for 2022-23, based on an anticipated normalisation of supply chains, the gradual ebbing of COVID-19 infections and a normal monsoon. Such expectations, however, were belied by the outbreak of hostilities in Ukraine since end-February 2022. Initially, the

shocks came from food and fuel prices, which were mainly global in origin, but local factors from adverse weather events also played an important role in increasing food inflation. The shocks to inflation got increasingly generalised over the ensuing months. Moreover, strengthening domestic recovery and rising demand enabled pass-through of pent-up input costs to retail goods and services. This imparted stickiness to underlying core inflation and kept headline inflation at elevated levels.

8. Under these circumstances, the MPC quickly changed gears by prioritising inflation over growth and also changed its stance from being accommodative to withdrawal of accommodation. The MPC acted proactively by holding an off-cycle meeting in May 2022 and raised the policy rate by 40 basis points. This was followed by rate hikes, albeit of varying sizes, in each of the five subsequent meetings till February 2023. In all, we have raised the policy repo rate by 250 bps cumulatively between May 2022 and February 2023. Thus, we acted in a timely manner and have calibrated the quantum of rate hike with the changing inflation outlook. In recent months, there are signs of some softening in inflation, with headline inflation easing to 4.25 per cent in May 2023 from the peak of 7.8 per cent in April 2022.

9. The cumulative impact of our monetary policy actions over the last one year is still unfolding and yet to materialise fully. While our inflation projection for the current financial year 2023-24 is lower at 5.1 per cent, it would still be well above the target. As per our current assessment, the disinflation process is likely to be slow and protracted with convergence to the inflation target of 4 per cent being achieved over the medium-term. Based on this realisation and with a view to assess the impact of past actions, we decided on a pause in the April and June 2023 meetings, but clarified unequivocally that this not a pivot – not a definitive change in policy direction. Recognising that explicit guidance in a rate tightening cycle is inherently fraught with risks, the MPC has also eschewed from providing any future guidance on the timing and level of the terminal rate.

Growth concerns

10. In India, with the formal adoption of flexible inflation targeting (FIT) in 2016, the Reserve Bank of India is entrusted with the responsibility of conducting monetary policy with the primary objective of “maintaining price stability while keeping in mind the objective of growth”. Given our population [2] and large addition to the work force every year because

of the “demographic dividend”, [3] we cannot be oblivious to growth concerns. Hence, we prioritised growth during the pandemic years even as inflation remained above the target but within the tolerance band.

11. The Indian economy displayed exemplary resilience post-pandemic and rebounded strongly from a contraction of 5.8 per cent in 2020-21 to a growth of 9.1 per cent in 2021-22 and 7.2 per cent in 2022-23. Proactive and coordinated response of fiscal and monetary policies nurtured a quick recovery, while various structural reforms related to banking, digitalisation, taxation, manufacturing and labour, implemented in the last few years, laid the foundation for strong and sustainable growth over the medium and long term. The government’s continued thrust on capital expenditure is creating additional capacity and nurturing the much-awaited revival in the corporate investment cycle. [4] The Indian economy has also made rapid gains in openness and has gradually integrated with the global economy over the years. Consequently, it is getting increasingly exposed to the vagaries of global headwinds. It is, however, pertinent to note that India’s growth in the last few years is mainly driven by robust domestic demand, especially private consumption and investment, amidst the global slowdown [5] . Looking ahead, we expect real GDP to grow by 6.5 per cent during 2023-24. In all likelihood, India will remain among the fastest growing large economies in 2023.

Regulatory and Supervisory Initiatives

12. In the last few years, we have put in place a stronger and more robust regulatory and supervisory framework. This has served us well in withstanding the scourge of the pandemic and the global financial market turmoil after the outbreak of geo-political hostilities. Our approach to regulation and supervision has been essentially premised on three pillars.

13. First, our focus in recent years has been to strengthen governance and assurance functions within our regulated entities – banks and non-bank financial companies (NBFCs). The emphasis has been on building an environment of trust, transparency and accountability in the financial sector. Some of our regulatory measures include implementation of (i) Liquidity coverage ratio (LCR) and net stable funding ratio (NSFR); (ii) governance guidelines for commercial banks; (iii) scale-based regulatory (SBR) framework for non-banking financial companies (NBFCs), among others. The capital and liquidity requirements are uniformly applied to all scheduled commercial banks (SCBs), irrespective of their asset

size and exposure. [6] Latest supervisory data indicates that all the banks are meeting the various prudential requirements. Stress tests also indicate that even in severe stress conditions, Indian banks will be able to meet the minimum requirements.

14. Second, our supervisory systems have been strengthened significantly in recent years by adopting a unified and harmonised supervisory approach for commercial banks, NBFCs and urban cooperative banks (UCBs). [7] We have considerably strengthened supervisory macro and micro data analytics to capture potential and emerging risks. Overall, unification of supervisory architecture; ownership-agnostic and risk-focused supervision; shift from episodic to continuous supervision; enhanced off-site surveillance, leveraging on data analytics and SupTech solutions; strengthened on-site supervision; outlier entities identification and deep-dive into vulnerable areas have been the major planks of our supervisory strategy.

15. Third, we focus on identifying and addressing the root causes of vulnerabilities in banks and financial entities rather than dealing with the symptoms alone. We deep dive into the business models of banks and other lending entities and closely monitor their asset liability mismatches and funding stability. We have a system of early warning signals that provide lead indications of risk build-up. Stress tests are also carried out on a continuous basis for both individual entities as well as at the systemic level. We do not interfere with the business decision making of regulated entities, but our approach is to sensitise the senior management of regulated entities for remedial action on any mismatch between the adequacy of internal controls and loss absorption capacity and the risks that their business models generate. We also remain engaged with the external auditors to flag issues that are relevant for their role.

16. Summing up, our approach towards maintaining the stability of the Indian financial system is integral to our conduct of monetary policy as financial instabilities can undermine economic growth and impede monetary policy transmission. We recognize that the likelihood of financial turbulence would be high if there is no price stability. This reinforces our belief in the complementarity of monetary policy and financial stability in the long run.

Effective Communication

17. At the Reserve Bank, we are mindful of the importance of communication, given our multifarious responsibilities and wider ramifications of our actions. We have followed a consultative approach by periodically interacting with various stakeholders on policy formulation. [8]

18. Central bank communication was tested to the hilt and on two major counts as the pandemic unfolded: (a) we had only the digital interface to communicate with media and other stakeholders, and (b) the target audience changed from experts to the general public with attendant challenges [9] . The communication during pandemic times, apart from explaining the measures being taken by RBI, were also a source of confidence and optimism for the common man. The April 2020 statement made by me stated "Although social distancing separates us, we stand united and resolute. Eventually, we shall cure; and we shall endure". The August 2020 monetary policy statement made by me said, "The pandemic poses a challenge of epic proportions, but our collective efforts, intrepid choices, innovations, and true grit will eventually take us to victory". These and other such messages reinstated the much-needed confidence, provided market guidance and helped anchor expectations, all of which are important elements of a modern monetary policy framework.

19. The Reserve Bank's pandemic response was prompt and decisive, with more than 100 measures undertaken since March 2020. The MPC meetings were held ahead of the schedule on two occasions (March and May 2020). I also delivered two other standalone statements outside the Monetary Policy Committee (MPC) cycle – one in April 2020 and the other in May 2021, the latter at the peak of the second (Delta) wave of COVID-19. These off-cycle meetings and standalone statements demonstrated the Reserve Bank's readiness to undertake prompt and pre-emptive actions. The unequivocal reassurance communicated to the public and other stakeholders through these statements along with our timely measures eased financial conditions considerably while unfreezing markets and reviving trading activity.

20. Effective forward guidance reinforced the impact of our conventional and non-conventional monetary policy actions during the pandemic. As noted earlier, our forward guidance on continuing with accommodative monetary policy amidst transient inflationary shocks was highly effective. Our asset purchase programme – G-sec Acquisition Programme (G-SAP) – provided an upfront commitment to a specific amount of open market purchase of government securities. This measure anchored interest rate expectations and facilitated monetary transmission.

21. Recalibrating the policy path after the pandemic presented its own set of communication challenges. Reversal of certain open-ended policies required careful and nuanced communication to align market expectations with our assessment. Illustratively, the Governor's policy statement of February 2021 addressed the fears of reversal of monetary policy which were building up due to resumption of liquidity absorption through VRRR operations in January 2021. This was done by explicitly explaining the rationale for the reintroduction of VRRR auctions. Similarly, liquidity rebalancing was set in motion in August 2021 through periodic upscaling of the 14-day main VRRR auction, with the explanation that liquidity conditions need to "evolve in sync with the macroeconomic developments to preserve financial stability".

22. The assurance given to the markets, the people and all other stakeholders through statements like "We will continue to think and act out of the box, planning for the worst and hoping for the best (June 2021); "The Reserve Bank remains in 'whatever it takes' mode, with a readiness to deploy all its policy levers - monetary, prudential or regulatory" (August 2021) demonstrated the central bank's commitment to remain steadfast in safeguarding trust and confidence in the domestic financial system.

23. In the subsequent tightening phase which commenced in April-May, 2022, the scale and nature of communication has been appropriately fine-tuned and calibrated, so as to ensure successful transmission of policy rate hikes.

24. We also recognise that communication has to be balanced – too much of it may confuse the market while too little may keep it guessing. Communication needs to be backed by commensurate actions to build credibility. We tread a very fine line and constantly endeavour towards refining our communication strategies.

Conclusion

25. Let me now conclude by reflecting upon some key lessons that we have drawn from our experience of the past three years. First, being proactive and nimble footed during a crisis gives one the agility to respond speedily to evolving developments that are overwhelming. In this regard, our decisions at the height of the crisis in 2020 and our liquidity rebalancing measures in 2021 served us well. Second, our measures have been prudent, targeted and calibrated to the need of the hour. We have not been tied down by any existing dogma or

orthodoxy. While lowering the floor of the interest rate corridor and increasing its width, we did not inject excessive liquidity or dilute our collateral standards. We kept in mind that what is being rolled out needs to be rolled back in time and in a non-disruptive manner. Third, we backed up our monetary policy actions by appropriate regulatory and supervisory measures, including macro-prudential instruments, that reinforced the policy impact and its credibility. Fourth, we provided guidance and confidence to the market and the wider public through effective communication as part of our endeavour to anchor expectations and sentiments appropriately. Thus, communication became an additional pillar of our overall policy response during the pandemic.

26. In my address today, I have endeavoured to provide a synoptic view of the Indian experience which may be useful for the ensuing discussions in this conference. I once again thank the organisers and Central Banking for this opportunity and wish the Conference all success.

Thank You.

1. The COVID-19 pandemic still continues to keep the world on the edge. The pandemic has so far infected more than 2.3 crore people and has claimed more than 8 lakh lives worldwide. The world is struggling to find a vaccine and/or a cure to the deadly virus. In India also the spread of pandemic continues unabated, though the fatality rate is much lower.

2. As the pandemic ravages on, the economic impact is hard to measure. While there are green shoots and some businesses are getting back to pre-pandemic levels, the uncertainty over the length and intensity of the pandemic and its impact on the economy continue to cause concern. In the wake of the pandemic, RBI has stepped forward and has so far announced various liquidity, monetary, regulatory and supervisory measures in the form of interest rate cuts, higher structural and durable liquidity, moratorium on debt servicing, asset classification standstill and recently a special resolution window within our Prudential Framework for Resolution of Stressed Assets.

3. This framework is a well thought out decision taken in consultation with stakeholders and is aimed at striking a balance between protecting the interest of depositors and maintaining financial stability on one hand, and preserving the economic value of viable businesses by providing durable relief to businesses as well as individuals affected by the

Covid-19 pandemic, on the other. We expect efficient and diligent implementation of the resolution plans by the banks, keeping the above objectives in mind. While the moratorium on loans was a temporary solution in the context of the lockdown; the resolution framework is expected to give durable relief to borrowers facing Covid related stress.

4. RBI's response to the situation arising out of Covid has been unprecedented. The measures taken by the RBI are intended to deal with the specific situation of Covid and can not be permanent. Post containment of COVID-19, I repeat, post containment of Covid, a very careful trajectory needs to be followed for orderly unwinding of the various counter-cyclical measures taken by the RBI and the financial sector should return to normal functioning without relying on the regulatory relaxations and other measures as the new norm.

5. In my address today, I would like to dwell upon the following theme: It is Time for Banks to Look Deeply Within: Reorienting Banking Post-Covid. Just like boosting immunity of the population is the key to tackle pandemics, the key to long term financial stability would be to foster tangible improvement in the inherent ability of the banks to withstand the exogenous shocks like the current pandemic. As I have stated elsewhere, the causes of weak banks can usually be traced to one or more of the following conditions: an inappropriate business model given the business environment; quality or the lack of governance and decision making; misalignment of internal incentive structures with external shareholder/stakeholder interests [1] and other factors. Accordingly, the core of resilient banks is made up of good governance, effective risk management and robust internal controls. This is not to say that Indian banks do not have sound governance and risk management systems in place. There is always scope for improvement and these are the areas which need greater attention going forward.

6. In recent years, the business landscape of banks has undergone significant change. Today the banks need to look out for 'sunrise' sectors while supporting those which have the potential to bounce back. For instance, Banks need to look at prospective business opportunities in the rural sector which remain unexplored despite efforts to support it. They need to look at start-ups, renewables, logistics, value chains and other such potential areas. The banking sector has a responsible role to play not only as a facilitator of growth of the economy but also to earn its own bread. Thus, a complete relook at the business strategy and orientation is the immediate need of the hour.

7. Scale ignites the volume effect in business turnover; but that presupposes bigger size of the banks. Despite several reforms in the banking sector since its nationalisation, lot more needs to be done. With change in time, the nature of reforms needs to be reconfigured. The current steps towards consolidation of public sector banks in line with the Narasimham Committee recommendation is a step in the right direction. Indian banks this way can reap the benefits of scale, and become partners in the newer business opportunities across the globe. Larger and more efficient banks, both in public and private sector, can compete shoulder to shoulder with the global banks to get a decent space in the global value chains.

8. Size is essential, but efficiency is even more important. Efficiency, however, is a much broader concept and requires several other factors to evolve and act along its side. The prerequisite will be use of technology. The quality and ingenuity of technology should match our aspirations of acquiring scale and diversion of business across the globe. The focus of use of technology should shift from 'transactions-based' to 'business-oriented'. We have a pocket full of technological tools like big-data, artificial intelligence, machine learning to leverage upon , in order to be able to compete with the global players in reaping the benefits of 'creativity' looming large all over.

9. While introspecting on newer ideas to improve the health of banks and quality of banking, it is fundamental to reform the culture of governance and risk management systems. These two areas lend inherent strength to the business of banking and good amount of work has been done in this direction over the years. The RBI has issued a discussion paper on ' Governance in Commercial Banks' , for comments from various stakeholders. Ideally, efficiency should be ownership-neutral. While it is natural that the capital-providers or investors would like to remain alive to the aspects of how exactly a bank is run, it is worthwhile to allow sufficient leeway to the Board and management of a bank to run the affairs of a bank in a professional and autonomous manner. A decent distance between the owner and the professionally sound management and Board would promote robustness of banking institutions.

10. There will be newer risks with newer business models. More so, when banks get bigger and more connected across diverse jurisdictions. High growth by virtue of newer business models can be achieved with clear understanding of one's own strengths and weakness. Remaining overly risk-averse may seem to be a measure of self-immunisation; but will be self-defeating as it would affect the bottom lines adversely. Risk propensity should be in

alignment with the individual bank's measured risk-appetite. The risk management system should be sophisticated enough to smell vulnerabilities brewing within the various businesses well in advance and should be dynamic enough to capture looming risks in sync with the changes in external environment and best practices.

11. One visible area of concern in the arena of risk management is the inability to manage the operational risk/s, more particularly controlling the incidence of frauds, both cyber-related and otherwise. The higher incidence of frauds which have come to light in the recent times have their origins in not so efficient risk management capacity of the banks, both at the time of sanctioning of loans as well as in post sanction credit monitoring. It is observed that it takes many months after a fraud is committed before it comes to light. Banks need to tighten their underwriting and credit monitoring standards and ensure that incidences of frauds are reduced by early detection and are followed up by initiating appropriate legal action against the fraudsters. Here too, the need is to leverage on technology, namely, artificial intelligence, to study the patterns of such incidences and the root cause behind their recurrence.

12. An effective early warning system and forward-looking stress testing framework should be an integral part of the risk management framework of the banks. Banks should be able to pick-up incipient signals of stress faced by their borrowers, and take proactive remedial action, which may include a viable resolution of the credit facilities aimed at preserving the value of the assets and not just aimed at reducing the short term burden on the balance sheet of the banks.

13. In addition to a strong risk culture, banks should also have appropriate compliance culture. Cost of compliance should be perceived as an investment, as inadequacy of the same will prove to be very costly. The compliance culture of banks should ensure adherence to laws, rules, regulations and various codes of conduct. Compliance should go beyond what is legally binding and attempt to embrace broader standards of integrity and ethical conduct [2]. The essential features of the compliance culture are broadly similar to the essential features of risk culture. All these will also help to maintain a high degree of market reputation which is imperative for retaining customers and commanding a higher valuation amongst the investors.

14. A good governance framework and effective risk and compliance culture should be complemented by a robust assurance mechanism by way of internal audit function. This is an

integral part of sound corporate governance which should provide an independent assurance to the Board of the bank as well as to external stakeholders that the operations of the entity are performed in accordance with the set policies and procedures.

15. The competition in the Indian banking system has been increasing over the years and unless banks meet the expectations of their target customers, even a well thought out business model may not succeed. In this context, quality of customer service and redress of customer grievances assume high importance. We have to recognize that banks exist for customers viz. both depositors and borrowers.

16. India's banking and financial system has displayed tremendous operational resilience in the face of Covid and lockdowns. Going ahead, financial institutions in India have to walk a tightrope of nurturing the recovery within the overarching objective of preserving long-term stability of the financial system. The current pandemic related shock is likely to place greater pressure on the balance sheets of banks leading to erosion of their capital. Proactive building of buffers and raising capital will be crucial not only to ensure credit flow but also to build resilience in the financial system - resilience of individual banks and financial entities as well as resilience of the financial sector as a whole. We have already advised all banks, large non-deposit taking NBFCs and all deposit-taking NBFCs to assess the impact of COVID-19 on their balance sheet, asset quality, liquidity, profitability and capital adequacy. Based on the outcome of such stress testing, banks and NBFCs should work out possible mitigation measures including capital planning, capital raising, and contingency liquidity planning, among others. Upfront capital infusion would also improve the sentiment of investors and other stakeholders alike for the sector to continue remaining attractive for investors, both domestic and foreign, over the medium to long-term. Some of the banks have already either raised or announced capital raising. This process needs to be carried forward vigorously by Banks and NBFCs, both in the public and private sector.

17. In conclusion, I would like to say that Covid-19 poses several challenges for banks and the financial sector. Proactive action on various fronts – some of which I have highlighted – will enable us to deal with these challenges effectively and maintain the soundness of Indian banking system. I am reminded here of a quote from Leo Tolstoy in War and Peace: "a battle is won by those who firmly resolve to win it!"

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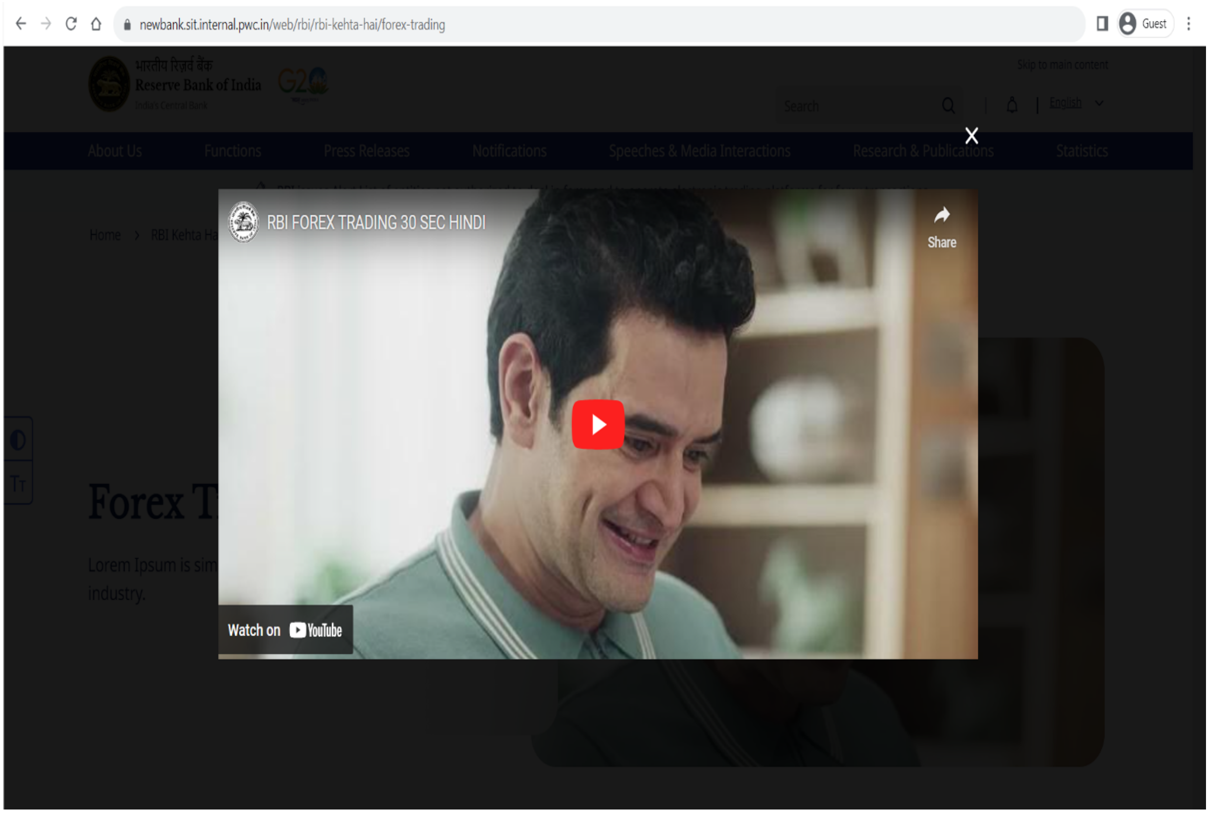

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