Banks face formidable capitalisation challenges; risk management skills need to be beefed up

MUMBAI, August 17, 2016. The formidable challenges in raising the amount of capital required under Basel III norms stares the Indian banking sector on the face, given the timeline of implementation of Basel III norms by March 31, 2019. This issue came up for close scrutiny by senor bank professions and credit analysts at the session on 'Capitalisation challenges and new Basel norms for the new frontiers in risk' on Day II of the annual **FICCI-IBA Conference, 'FIBAC 2016',** here on Wednesday.

The session was chaired by **Mr. P K Gupta,** Managing Director (Compliance and Risk), State Bank of India and the panellists were**: Mr. Melwyn Rego**, MD & CEO, Bank of India; **Mr. G Gopalakrishna,** Director, Centre for Advanced Financial Research and Learning; **Mr. Mohan Jayaraman,**Managing Director, Experian Credit Information Company of Inia and Country Manager, Experian India and **Mr. Abhishek Bhattacharya,** Co-Head – Bank and Financial Institutions, India Ratings and Research.

The panellists agreed that the net worth of many public sector banks stands eroded because of Non-Performing Assets (NPA). The Asset Quality Review by the RBI has led to increase in provisioning to as high as 15% compared with 0.4% provisioning for standard assets. Provisioning for NPAs has taken a toll of profits and internal accruals and investors have shied away from investing in shares of public sector banks.

In such a scenario, the last two years has hardly seen any programme for raising of capital. The situation could worsen as the requirement for capitalisation will grow as demand for credit increases to fuel growth.

The panellists were of the view that banks would have to address the shortage of risk management staff, hone risk management skills, strengthen the relationship manager operating model and create a common information sharing model, especially for recovery of large credits.

The challenges, it was felt, would arise from difficulty in accessing the market, loss of customer appetite for Additional Tier I (AT I) bonds and the aging factor of NPAs which would keep the credit costs high. There was therefore a need to focus on ATI, the ideal scenario being one where banks can go to the market and borrow at will.

It was suggested that there was a need to optimise the retail portfolio through the use of credit risk models to assess risks and automated systems. It would also be necessary to improve efficiency in collection through non-invasive such as the use of call centres. The adoption of these practices could lead to maintenance of retail credit growth.

****
****

FICCI MEDIA DIVISION