

Sansad TV Perspective: Health of India's Banking System

In the series Sansad TV Perspective, we bring you an analysis of the discussion featured on the insightful programme 'Perspective' on Sansad TV, on various important topics affecting India and also the world. This analysis will help you immensely for the [IAS exam](#), especially the mains exam, where a well-rounded understanding of topics is a prerequisite for writing answers that fetch good marks.

In this article, we feature the discussion on the topic: **Health of India's Banking System**

Video link: <https://youtu.be/i2PoBrjkbw>

Anchor: Teena Jha

Guests:

1. A.K. Mattoo, Banker & Former GM, RBI
2. Deepshikha Sikarwar, Senior Editor, The Economic Times
3. Dr. Charan Singh, Former Chairman, Punjab & Sind Bank

Context: The RBI has highlighted the stability and resilience of the Indian banking system amid the increasing concerns about the exposure of banks to a business conglomerate.

Highlights of the discussion:

- Introduction
- Factors behind the robust and resilient banking system
- Achievements
- Associated concerns
- Future course of action

Introduction:

- The Indian banking sector remains resilient and stable. Various parameters relating to capital adequacy, asset quality, liquidity, provision coverage, and profitability are healthy. That's the statement from the [Reserve Bank of India](#) amid heightened concerns about the exposure of banks to a business conglomerate.
- Allaying fears of systemic risks, the central bank has said, "As the regulator and supervisor, the RBI maintains a constant vigil on the banking sector and on individual banks with a view to ensure financial stability."
- Banks are also in compliance with the Large Exposure Framework (LEF) guidelines issued by the RBI.

- The statement from the RBI was a reiteration of what Finance Minister Nirmala Sitharaman said on the issue. The Minister earlier asserted that the Indian banking system remains healthy. Having gone through the twin balance sheet problems, the system is at a comfortable level. NPAs are coming down, recovery is happening and the position is very sound. That was the precise statement made by the Finance Minister.

Also read: [Types of Banks in India](#)

Factors contributing towards a resilient and stable banking system:

- The RBI as a regulator is excellent and it is well-recognized in the world. It handles the regulation and supervision of such a heterogeneous system involving commercial banks (private and public), cooperative banks, foreign banks, and even [non-Banking Financial Companies \(NBFCs\)](#) with great efficiency.
- The respect the RBI commands in the world is extremely high. For instance, the Federal Reserve, Washington invited officers of RBI in 2009 after the collapse of the Lehman Brothers.
- RBI is extremely watchful at the macro, institutional, and individual levels and releases periodical reports like the Financial Stability Report.
- The economy and the banking system performance are intertwined and as the Indian economy is performing well the banking system is also in a stable position.
- The RBI has performed well even during an economic crisis such as the Asian crisis.
- The advances at the micro level are continuously monitored and there is a system of [credit repository for large creditors](#).
- The RBI has maintained a robust system of checks and balances. For eg:
 - It keeps the Capital to Risk Weighted Asset Ratio (CRAR) at 9%, which is above the prescribed [BASEL III norms](#) of 8%.
 - It also provides an additional counter-cyclical buffer of 2.5%.
- Further through various stress tests, RBI observes that the system is capable of absorbing macroeconomic shocks without the requirement of additional capital.
- The Asset Quality Review which RBI initiated in 2018 is crucial in identifying and plugging the loopholes.
- Every time there is an error the RBI performs sectoral analysis and cautions the bank.
- The banks have deployed a risk assessment department and risk assessment officers.
- RBI has made various provisions and starts flagging the risks much ahead of declaring it as NPA through Special Mention Account.
- A robust database system has been developed where the data is collected and shared for better monitoring.

Also read: [Non-Performing Assets \(NPA\)](#)

Achievements of the Banking Sector:

- The issues of NPA and [Twin Balance Sheet problems](#) were addressed through proactive measures of government and RBI like Recognition, Resolution, Recapitalization, and Reforms.
- RBI is constantly vigilant of all the bank activities and keeps a close eye on the advances.
- According to the [Financial Stability Report of December 2022](#), the Gross Non-Performing Assets (GNPA) are at a seven-year low and the Net Non-Performing Assets are at a ten-year low at 1.3%.
- The CRAR on September 2020 was around 15.8%, which increased to 16.5% in September 2021. It was 16.1% in September 2022. It is well above the overall prescribed level of 11.5%.
- The return on assets from September 2020 increased from 0.6% to 0.8%. Similarly, the return on equity also increased from 7.7% to 9% during the same period of time.
- The Budget 2023-24 has no provisions for capital infusion. This reflects the confidence of the government in the robust position of the Indian banking system.
- None of the banks has failed since 1963 because of efficient regulation by RBI. This has kept the depositors' interest in the system intact.
- International rating agencies like Moody's Investor Service and Standard & Poor's global rating have upgraded their outlook for the Indian banking system based on its performance in the last couple of years.

Associated Concerns:

- Despite various provisions, the risk of fraud and scams continues to loom large even in present times.
- The banks are exposed to various risks like credit risk, market risk, operational risk, and technological risk.
- The risks erode the trust of the public and the credibility of the system.
- There is a popular theory that if the regulation is too much then it might result in strangulation and might hamper creativity and growth. On the other hand, if the regulation is too less there will be errors and failures. In this tradeoff, the system can be exploited.
- It is also found that in the majority of bank frauds or scams, there was the involvement of personnel from within the bank.

Future Course of Action:

- After addressing key concerns like the NPAs and recapitalization, the government is moving towards the substantive reform of privatization.
- It was also announced in the Budget speech of 2022-23 that the idea is to have a few big banks.
- RBI is also constantly improving its ways and mechanism of monitoring and regulation to be risk-proof in the future.
- It should be considered that even the best of the systems across the world will have some flaws and the risk ratio of bank failures in India is very low.

- In the mechanisms deployed by the RBI, there is a red alert in case of any discrepancy in the system. Technology can help to a great extent in increasing the frequency and time efficiency of addressing such red alerts. Thus, RBI should leverage technology.
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