EXPERT OPINION

BANKING

Deepak Pande is a seasoned banking professional with over 30 years of experience in Indian Markets. He is a Business Development specialist across diverse Banking Products. Expertise in Branch Banking, Retail Banking, Branch/ATM Expansion, Business Banking, Trade Finance and Retail Investment Products including Retail Broking. He currently works at Suljhan Consulting as a Co-founder and CEO. We got an opportunity to catch up with him to understand his views about the banking industry, his vision and opinions about the future of this industry.

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Q 1. What do you think about the impact that the government's initiatives to go cashless will have on the banking system?

A. Bankers have always been creating an awareness in the mind of customers to migrate to digital channels. There are twin benefits to the Bank when customer switch to alternate channels viz ATMs, Net Banking, Telebanking, Mobile, debit/credit cards or mobile app. Firstly, transaction cost is highest for Brick and Mortar Banking i.e. when customer comes to the branch and its reduces drastically when customer migrates to ATM, Telebanking, Netbanking, Mobile Banking, e-wallets and credit/debit cards, in that order. Post demonetization, a large number of customers have shifted to digital transactions, which would mean cost savings for the Banks that, in turn, would increase the profitability of the Banks. Secondly, when you are able to successfully migrate the customers to alternate channels that provides Banker an opportunity to serve an even larger customer base, as footfall comes down, and an opportunity to cross-sell various products, including third party products.

As regards cashless economy, it would be difficult to say, at this juncture, how much time it would take to become cashless economy but we have taken a big stride towards less cash economy. None of the countries in the World has become cashless so far.

Q 2. What do you think Urjit Patel is doing to continue the progress done by Raghuram Rajan regarding NPAs?

A. Cleansing of the Balance Sheets of the Banks was the initiative taken by erstwhile RBI Governor Dr Raghuram Rajan. The way NPAs have got unfolded during last 18-24 months period, it appears that these were kept under carpet for quite some time. With the passing of Bankruptcy Act and empowering Bankers with Surfaesi, auctioning of the collateral securities, quick disposal of pending cases in debt recovery tribunals, converting debt into equity by taking Management control, putting the stressed corporate on block and needless to mention, a crackdown on the defaulting borrowers by sending a stern message of repayment of debt, has set the ball rolling. Some of the large Corporates have voluntarily sold assets to reduce the debt burden. Since RBI has given a deadline of 31st March 2018 to Banks for cleaning up their respective balance sheet. There is every likelihood that policy of cleansing the Bank's Balance Sheet would continue in the present era of Dr Urjit Patel. Government has been infusing capital in PSBs to meet CAR requirements, based on achievement of certain parameters but this budget has no provision of funds for infusion into PSBs, Either Government will take mid-year decision or PSBs will have to raise funds themselves. The next year budget has a proposal of setting up a Rehabilitation agency(Bad Bank), which may take over NPAs of the PSBs.

Q 3. Do you think the RBI's initiatives to strengthen the formal banking system in rural India through payment banks and small finance banks will pay off?

A. Financial Inclusion is the buzz word for issuance of in-principle specialized licence to 11 entities as Payment Banks and 10 entities as Small Finance Banks.While Airtel Payment Bank and India Post Bank have formally commenced the operations, rest are awaiting final approval from RBI barring 3 entities which have withdrawn the applications. 4-5 Small Finance Banks have also commenced the operations. While bigger Banks were also using Business Correspondents for expanding the reach but these specialized Banks would be more effective in reaching out to un-banked areas for extending banking services. When one takes a closer look at the criteria of granting specialized licences, majorly payment Bank licences have been granted to telecom service providers in addition to other players like NSDL and PayTm whereas all SFBs licence have gone to micro-finance companies. All these entities have a large consumer base of their own, which could become immediate target segment of these newly launched banks. As regards reach of these Bank, consumers/customers are widespread throughout the country in the form of mobile users and small borrowers. India Post has a network of 155,000 Post Offices, which will be offering Banking services over a period of time. Airtel and Reliance has 300 million and 100 million subscribers, which will be the target segment. Airtel payment Bank has acquired 2 million customers in less than 2 months period that itself is a landmark figure and now that Bank has announced plan to cross-sell third party products. Jan=dham accounts have already covered more than 50% population of country, rest of the population would be covered over a period of time by these specialized Banks.

Q 4. Is the government's decision to reduce the recapitalization amount given to banks in budget 2017 from 22000 crore to 10000 crore an indication that the government has left banks to survive on their own?

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Government has been infusing funds into PSBs for last so many years, With the Basel III likely to be implemented from 1st April 2018, these Banks need to be self-sustained to raise funds despite limitation that Government holding in these Banks can not go below 51%, barring IDBI Bank.This year first tranche amounted to 22,915 crores whereas further fund infusion of similar amount is expected before 31st March. Since Government had to provide relief to middle class, farmers, economically weaker section while containing fiscal deficit at 3.3% level, it appears that the Government could not allocate funds in budget for infusion into PSBs but during the course of the year depending on enhanced tax collections post demonetisation, it is likely to allocate funds to some of the weaker PSBs. Some of the stronger Banks would be in a position to raise funds on their own based on the sound financials.

Source: www.umassmed.edu

Q 5. What are your thoughts on the traditional debate between Relationship banking vs arm's length banking.

Customer acquisition is the first step towards Relationship Banking offering traditional banking products to the customers besides extending delightful customer service.The traditional products are offered through the customer interface officials whereas specialized services like Merchant Banking,Investment Banking, Trusteeship Services, Factoring, Forfaiting, Insurance, Mutual Funds, Wealth Management Products are offered through subsidiaries or through partnership, Even Wealth Management Service will also have to offered through a subsidiary maintaining an arm's length from the Bank over a period of next two years. Since Banks are moving towards becoming one stop financial shop where all financial requirements of the customers could be met at one place, it is necessary to make available all financial products through distribution network. As all Banks have been moving towards Treat Customer Fairly (TCF) guidelines, they have to adopt a customer-centric approach rather than Bank-centric or a product-centric one. While relationship Banking focuses on the traditional products, specialized products are offered through subsidiaries to avoid mis-selling to customers. With the movement of wealth management products to a subsidiary, the objective of arm's length Banking would be met to a certain extent.

Q 6. What effect will the merger of SBI and its subsidiaries have on the industry?

As announced by the SBI Management, the Associate Bank merger would be effective from 1st April 2017. That would result in formation of a global size bank with asset base of 32 lakh crores, 22,000 branches, 58,000 ATMs. The merged entity will have 25% share of the business and it would get into top 50 banks of the World in terms of assets. With one-fourths of the Banking business in the Indian Markets, SBI would look forward to increasing its market share to the next level. The enhanced reach through associate Bank network will enable SBI to increase its presence in the regional areas like SBBJ has more presence in Rajasthan, SBH is predominantly present in Telangana and Andra Pradesh. Similarly SBP, SBM and SBT will provide it enhanced reach.This extended reach through associate Bank network will help SBI to meet financial inclusion objective of RBI. The merger would increase the market capitalization of SBI that will help it to bridge the gap between it and HDFC Bank. This merger could also be construed a pre-cursor to the consolidation phase in the Indian Banking Industry over a period of time.

- Deepak Pande