

# Contemporary Banking in India

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*Naina Lal Kidwai (2012), Contemporary Banking in India, Businessworld Books, Price: Rs. 595, Pages : 320, ISBN: 978-93-81425-02-2.*

There could not have been a more worthwhile effort to illuminate the issues relating to banking in India, than this book "Contemporary banking in India" by Naina Lal Kidwai. And there could not have been a better time as well, with the sector witnessing frequent changes at regular intervals, as never before in the history of existence of banks in India.

Banking is the bloodline of any economy. In its prime role of transferring funds from fund surplus units of the economy to the fund deficit units, it assumes paramount importance in the development of any economy. No surprise that safety and soundness of the banking system has been a prime concern for all nations since times immemorial. This has been the key motivating factor for all major changes in the banking sector; call it the Glass Steagall Act of 1933 or the Gramm Leach Bliley Act of 1999 or any such other driving force.

The world in 2012 had faced an immense economic uncertainty. While the end of the tunnel may still be anybody's guess, not only Europe or the United States of America but many other nations across the globe are defining and redefining banking structures as preventive or operative mechanisms, notwithstanding the Basel III requirements. These changes have been in quick succession through the last year. What was applicable on a given day may not have been valid on the next. To my mind, writing a book on contemporary banking under such circumstances is a brave attempt because unlike newspapers, books are not likely to be revised everyday in order to ensure its contemporary intent.

The book is an excellent bouquet of the views of some of the most prominent bankers of the country on some of the very contemporary themes that the Indian banking industry has been facing. While it deals with these

issues, it also lays down the challenges and opportunities that need to be addressed. The themes belong to a wide range including corporate governance, risk management, financial inclusion, priority sector lending, market structure, and infrastructure financing.

Perhaps, only a person of the caliber of Naina Lal Kidwai, a management graduate from the Harvard Business School and Country Head and Executive Director on the Asia Pacific Board of HSBC, and an active contributor to several high level committees could have woven such individual powerful theme threads into the fabric that this book has been. The book aptly commences with her take on the road map for the Indian banking sector. This opening note makes way for the remaining contributions.

The book is compartmentalized into four sections. The first article of the first section is authored by Chanda Kochhar, Managing Director and Chief Executive Officer of ICICI Bank and deals with the transformation of the Indian banking sector. The article is an exhaustive representation of the reforms witnessed by the Indian economy since the 1990s, the resultant overall economic growth and the evolution of the Indian banking sector through these times responding to the changing economic environment, and the way forward for the sector to meet the demands that it would face, notwithstanding the challenges that could impact it. The author opines that the changes would be substantial and rapid and may also enable the Indian banks making their presence felt at the global level.

Next to come in is Adil Jainulbhai, Chairman, McKinsey India, who enlists some important trends that would shape the new emerging market opportunities for Indian banks in the next decade. Some such trends would include global market changes, massive urbanization, wealth concentration, evolving consumer behavior, and

regulatory and technological transformations. The author also provides structural analysis of the growth opportunities for Indian banks in the coming decade, such as deepening household savings, providing banking to the unserved and underserved sections of the society, and capturing opportunities for nextgen banking. The article concludes on a prescriptive note, identifying certain functional skills that would become critical to win, namely managing capital, creating customer centric business model, managing risk, and developing leadership.

Subir Gokarn, Deputy Governor, Reserve Bank of India, opines that given the constraints that Indian banks may face in human capital and financial capital, knowledge capital is advocated to assume center stage. Knowing your customer is knowing just not his name and address but more importantly his needs and aspirations. The author argues that the financial sector must practice KYC (know your customer) in order to Grow with Your customer (GYC).

In the last article of the first section, MV Nair, former Chairman and Managing Director, Union Bank of India, makes a case for the Indian banks to rise to the challenges emerging from a new class of customers whose demands and needs would be different from those of the existing pool of clientele. This would be the tech savvy customer seeking excellence and convenience, having low loyalty and diversified savings and investment needs. After outlining the profile of this nextgen consumer, the author elucidates the challenges and opportunities that this consumer will bring in to the Indian banking sector.

Section two commences with the views of DV Subbarao, Governor, Reserve Bank of India, on corporate governance of banks in India. He establishes how corporate governance in banks is different and critical, the way it has evolved over the years, and that regulations can complement corporate governance but not substitute it. The author invites readers' attention to five important issues in corporate governance of banks, namely, ownership, accountability, compensation, split in the post of chairman and chief executive officer, and the financial holding company structure. It is certainly interesting to witness the regulatory head citing the

notion of 'dharma' as existing in 'The Mahabharata' to explain the concept of corporate governance.

The next article by Jaspal Bindra, Group Executive Director and CEO Asia, Standard Chartered Bank, takes the discussion on corporate governance forward. The article links the effectiveness of a board to its composition. It lays down the responsibilities that the boards should own, such as succession planning, regulatory compliance, risk management, and efficacy of audits, besides overseeing the strategic implementation for the bank.

The third article in this section is by Viral V Acharya, CV Starr Professor of Economics, NYU Stern School of Business, who discusses the implications of Basel III requirements for India. The author makes a detailed attempt to outline the prescription of the latest version of the Basel norms, their consequences and more importantly the risks that the resultant transition of the global financial system poses to the emerging economies such as India. In the process, it also raises some larger regulatory issues for India and the lessons it can learn thereof.

Financial inclusion happens to be the mainstay of the third section of the book. KC Chakraborty, Deputy Governor, Reserve Bank of India, initiates the discussion with the definition and desirability of financial inclusion. An update on the present state of financial inclusion in India is followed by the challenges that lie on the road ahead. The next article by Ananth et al. further substantiates these shades of financial inclusion. Neeraj Agarwal, Partner and Director, Boston Consulting Group, India, completes the trio on financial inclusion.

Aditya Puri, Managing Director, HDFC Bank, raises priority sector lending as another contemporary issue relating to Indian banking and suggests a review of the composition of priority lending given the development in the economy and the need for making it viable from the bankers' perspective. The next article by PJ Nayak, Managing Director and Country Head, Morgan Stanley, India, tries to assess the ability and willingness of Indian banks to innovate given the evolving shifts in the market structure. Interestingly, the author argues that experimentation and differentiation in India have

focused less on product innovation and more on process redesign and distribution efficiencies.

Sunil Bharti Mittal, Chairman and Group CEO, Bharti Enterprises, follows up with the contributions that the telecommunications infrastructure can make to the growth of banking in India and the advantage that mobile banking has over the traditional brick-and-mortar banking model in achieving the larger objective of financial inclusion. One good element of the book has been that besides all the quantitative aspects of banking it also includes the evolving paradigm of sustainable development. Rana Kapoor, Managing Director and Chief Executive Officer of Yes Bank talks about sustainability in finance and the need for developing a viable approach for banks.

Section four, which is the last one, deals with the issues relating to public sector banks, foreign banks and non banking finance companies. While KR Kamath, Chairman and Managing Director, Punjab National Bank, attempts to identify a new mantra for growth for the public sector banks, MD Mallya Chairman and Managing Director, Bank of Baroda explores the role of banks in financing infrastructural development in the country. Gunit Chadha, Co-Chief Executive Officer, Asia Pacific, Deutsche Bank outlines the role of foreign banks in India's growth over the last few decades and the role that could be played by them in future. The last two articles, one by YM Deosthalee, Chairman and

Managing Director, L&T Finance Holdings Limited and the other by Arun Duggal, Chairman and TB Kapali, Vice President, Shriram Capital discuss the role and importance of non banking finance companies in the economy.

While I called putting together a book like this as a brave attempt, writing a review to such an effort is equally challenging for similar reasons. Many more changes would have come in by the time this review reaches the hands of the readers. The maxim "change is the only permanent thing in this world" is best exemplified. However the theme will continue to be valid at all times to come. If Indian economy has to have a dominant presence in the global economy by 2050, Indian banking will have to grow manifold. In doing so, the top three challenges being faced would be those of capital, asset quality and financial inclusion.

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