

## **Future architecture of banking and NBFCs**

The RBI Governor has hinted at a future with a heterogeneous structure of commercial banks with differing scale and geographical presence marking the categories.

<https://bfsi.economicstimes.indiatimes.com/news/policy/india-will-have-heterogeneous-banking-sector-in-a-decade-with-four-types-of-banks-shaktikanta-das/81688738>

In some sense what he has alluded to is the present format of bigger sized universal banks(scheduled banks), cooperative and regional banks, small finance and payment banks and fintech companies that do all of banking except handling money. There appears to be no new input in the purported statement of the governor.

However it is very opportune to envision a new architecture for the banking and non banking finance companies as in some sense the world has been stood on its head by the pandemic and all economies around the world have been ravaged and India has besides the present crisis also to contend with the legacy issues of serious accumulation of bad debts in the banking system and a clear lack of accountability among lenders and regulator leading to this monumental crisis.

So it is not only stock taking time but also salient to revisit past notions and hard held views and visualize the evolving needs locally and globally and ensure that our policies promote the right design to serve the interests of all stakeholders. The customers have grievously suffered in the cases of PMC bank, YES bank , LVB and Guru Raghavendra bank just to give more recent examples. Dewan housing, Reliance Capital and ILFS caused immense losses to commercial lenders and high net worth investors alike. These cases have been less engaging the regulator as there was no hue and cry of the common man' money being lost. Together these cases account for a substantial sum of wealth erosion and siphoning out by promoters. There appears more cases on the anvil based on recent news of forensic audits happening in others.

The two missing component in the existing system is that conventional capital adequacy norms do not adequately protect the interest of the savers and lack of long term funds to address funding of infrastructure and long gestation projects. In other words, the mismatch in the tenure and risk profile of funds borrowed and funds lent by the banks has greatly contributed to the situation of near insolvency in some cases. The lack of timely oversight and intervention by the regulator making it much worse.

The pillars of the new design shall be that common man' money is cent percent secure and that banks are prohibited from lending the same to any end use that has both tenure mismatch and risk incompatibility. If this constraint is accepted as sane, then the first layer of banks shall be the ones that essentially source small savings and deploy it in ultra safe avenues only and act as true facilitators of funds movement and keeping it safe as long as it is required with no uncertainty

on repayment and a legitimate return benchmarked to gilts. The maximum regulations and supervision time shall be on this type of banks as this acts as the custodian of the public savings of aam aadmi/auradh.

The second missing piece in the present system is the source for long term funds. The Government has initiated the process of setting up the DFI in the recent budget. While the government may be the first mover there is ample space to put more players in this category. This should be least regulated as the players on both lending and borrowing side would be well equipped institutions and high networth investors. The parties should be left to manage their own destinies and practically this should be *lassiez faire* with only normal laws of the country governing them. All corporates keen to enter banking should be cajoled to start here and cut their teeth in this model! No licencing procedure should apply and only a filing of intimation of intent to do business should be required. But these would be banks offering full banking services to its clients and not the conventional DFI which typically don't do banking.

Between, the two extremes shall be placed the rest of the players who shall be regulated based on size parameters and kept out of dabbling with small savings to the maximum extent possible. The distinction between banks and NBFCs shall be maintained to the extent that those seeking higher flexibility and lower regulations shall be allowed to choose the NBFC route with no access to common man's money. Those that seek the brand of a bank shall have it with a greater regulatory rigour. Such players may be allowed to access public funds but at a substantially high minimum threshold to avoid the typical common man from getting lured to park his/her funds and later stand on the streets shedding tears on money lost!

More than anything else, the committee which has purportedly been constituted to issue licences to new banks should first be asked to deliberate on the new design for financial services in the country and also pin point the reasons for supervisory failure of the RBI in the last few years.

These are views of a common man who is no expert on banking! But those endowed with better knowledge and understanding of the sector should bombard RBI with suggestions that would make loss of public money a thing of the past

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