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Mundra warns against too much dependence on retail banking

By PTI | Updated: Dec 14, 2015, 06.53 PM IST

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MUMBAI: Reserve Bank deputy governor **SS Mundra** today warned banks against their excessive focus on retail lending, saying that the segment cannot be the panacea for growth and that too much of retail lending will also create its own problems.

"Whatever has happened in the corporate financial world in the past couple of years, probably now everyone is moving towards retail lending. But **retail banking** cannot be a panacea for credit growth", Mundra said at an event today.

He also said too much focus on retail lending will create its own problems.

Banks, facing tepid credit growth, of late have been focusing on retail books due to sluggish demand from corporates, who have stretched balance-sheets and also higher number of loans turning bad given to large borrowers.

The deputy governor however said if banks really want to play it big in retail then they must have lots of back office preparedness and robustness.

"Without these two requisites, a massive entry into retail area can create its own problems," he warned.



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Mundra said though RBI has introduced a host of measures like 5:25 refinance scheme, JLF, SDR to deal with NPAs, along with stressed restructured accounts crossing 13 per cent, there is a need for strong bankruptcy code to address the issue.

"These (5:25 refinance scheme, JLF, SDR) schemes are all the second best options. The most efficient option would be to have an effective bankruptcy code, which we don't have currently", he added.



The government is working in this direction and soon a final outcome on code will come, he said.

Talking about the challenges in the banking sector, he said the sector is facing issues related to asset quality, capital adequacy, high corporate leverage and also higher level of unhedged forex exposures.

Mundra further said banks should get rid of asset quality issues as soon as possible because this will enable them to take advantage of growth as it is slowly started.

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