

# Business Standard

## NPA norms may be tougher than Basel's: RBI deputy governor N S Vishwanathan

RBI working on corporate governance rules in line with global standards, says Vishwanathan

Anup Roy | Mumbai November 23, 2019 Last Updated at 01:48 IST



*RBI Deputy Governor N S Vishwanathan addresses the Business Standard Annual Banking Forum on Friday*

The Reserve Bank of India (RBI) is working on a corporate governance structure for banks in line with Basel norms, but the Indian version would likely be tougher in recognising bad loans, said RBI Deputy Governor N S Vishwanathan in his keynote address at the *Business Standard* Annual Banking Forum.

“In the past we had a situation where the additional NPA (non-performing asset) assessed by the RBI was not made public. Because of the Basel committee recommendations, lots of disclosures are now required, but we need to go beyond those,” the most senior RBI deputy governor said.

“The effort should be to disclose more rather than less, except what you cannot disclose legally. The default should be to disclose as much as we can as long as we don’t hit a provision of law, or end up disclosing the market strategy of the financial intermediaries,” said Vishwanathan.

The RBI last year mandated that banks should disclose in their annual report the divergence between what was disclosed in the balance sheet of a bank and what was assessed by RBI auditors.

The Securities and Exchange Board of India (Sebi) recently said such market sensitive information should be disclosed immediately on the exchanges.

Following this, YES Bank earlier this week reported more than Rs 3,000 crore of divergence in its FY19 results after getting the RBI assessment report. According to Vishwanathan, the disclosure of divergence was part of the RBI's larger strategy on overall corporate governance strategy for financial intermediaries.

“The most important part for financial intermediaries and banks, in general, is getting their risk management right. If banks get their risk management right, most of the problems are unlikely to happen.”

**"WHOEVER WE TALK TO – CUSTOMERS, INDUSTRY PEOPLE, COMPANIES – SAY WE ARE ON A RECOVERY PATH. WE ARE BETTER OFF IN OCTOBER–NOVEMBER THAN WE WERE IN AUGUST"**

**Rajnish Kumar,**  
Chairman,  
SBI

**"INDIAN BANKING IS DOING QUITE FINE, COMING ALONG WELL. IT IS OPEN BANKING, IT HAS COMPETITION, AND OUR CHARGES ARE ALSO LOWEST IN THE WORLD"**

**Aditya Puri,**  
MD, HDFC  
Bank

Even as financial institutions have high leverage, banks have access to "large

uncollateralised funds from the public in the form of deposits”. This, therefore, demands that the governance structure in banks should be stronger than elsewhere.

While regulatory capital can take care of banks' unexpected losses, banks make provisions against them. But when provisions result in an erosion of capital to the extent that the entity is not able to bear the loss, “then it means that the risk management framework in that entity is not in order”. In such cases, it is likely that the risk management committee is not able to ensure that the operations of the bank are within the bounds of its risk appetite, or the risk appetite is at a level beyond the ability of the entity to bear the loss.

“If the recognition of losses is delayed, that would mean risk management is weak,” the deputy governor said.

“The way to deal with a situation is not to defer the situation. Don't fester, or delay the recognition of the problem. There should also be proper reward for prudent risk taking,” he said.

If risk management is good, the management immediately becomes alert to the losses, either on account of bad debt or investment, but there is a tendency to delay the recognition.

This makes people believe the bank is acting within the limits of its risk tolerance and everything is fine, whereas the opposite could be true.

“Good governance should put in place a risk management framework and risk appetite framework, and ensure the operational entity of the bank is within the framework put in place,” Vishwanathan said.

“Tick-box compliance should go.” When the RBI does supervision, banks are given some action points. It is important that “the management should follow those action points in letter and spirit” instead of being content with ticking the box on a prescribed compliance format.

To improve the governance structure of banks, the RBI recently came up with guidelines on compensation packages for senior managements. The guidelines divided the compensation into fixed and variable pay, and pegged risk-based performance with the pay.

“Strengthen your governance, not just as required by the RBI. Strengthen governance, recognise losses, see if the losses are beyond your risk appetite, change your operations to eliminate this risk avoidance of the system,” Vishwanathan concluded.

**The New Landscape**  
Posted by **Business Standard**  
3,068 Views