

India's banking sector heading for greater consolidation, Kotak Bank CEO explains why

By: FE Bureau

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Uday Kotak, managing director and CEO, [Kotak Mahindra Bank](#) (KMB), on Thursday said the banking sector was headed for “consolidation” due to the asset risk in the system. “The sector on a broader basis, without getting into public or private sector, is heading for a greater consolidation because of asset risk which the financial sector is carrying,” Kotak said.

The observation was made at the global fintech festival in response to a question from Bank of India chairman G Padmanabhan. The nature of the consolidation, however, would depend on the Covid-19 situation, Kotak observed.

DIPAM secretary Tuhin Kanta Pandey had earlier told FE the government’s proposed new policy to have not more than four PSUs in each ‘strategic sector’ will likely apply to the banking space too.

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The number of public sector banks (PSBs) could be brought down to four from 12 via privatisation or consolidation. The government had already directed the merger of 10 public sector banks into 4 from April 1, 2020. Kotak also said, over time, capital was going to be critical for financial sector. “What is needed is capital risk management expertise and an ability to govern institutions on a sustainable basis,” he said. He also said policy supervision, regulation and governance had to be ownership-neutral. “The principle of governance should apply to both public sector banks and private sector banks in the same

manner,” he said.

He also highlighted the need for strong group oversight specifically in the areas of risk, finance and compliance. However, a conglomerate also needs to be very conscious of ‘conflict of interest’, he said. Giving the example of a bank, that also has an asset management business, Kotak said the asset manager should handle distributors ‘independently’. “The principles of ‘dharma’ of what is right with reference with customer and nature of the business are at the core of sustainable financial institution,” he said.

According to Kotak, there should be less intervention by the government in the initial journey of digitisation. On a lighter note, he said, “There is a joke going around that ‘Y2K’ and success of Indian software happened because the government was not involved.” He further said, “Let’s not be interventionist, if the marketplace is developing well.”



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