Banking sector to undergo sea change in two years: Rajan

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Pune, April 10: RBI governor Raghuram Rajan on Friday predicted major changes for the country’s banking sector in the next two years.

"India is full of opportunities. The banking sector will undergo great change in the next two years. You are going to have a whole new set of institutions," he said.

Rajan also said the central bank was looking at allowing full capital account convertibility in a few years. "My hope is that we will get to full capital account convertibility in a short number of years," he said. Full capital convertibility means a foreign investor can repatriate his money into his own local currency at will, which is not allowed in the country now.

Public sector banks are going to be a tremendous change agent going forward," he said.

Last month, the RBI had issued a list of applicants for small finance banks and payment banks after finalising guidelines in November.

"Many of your clients are never going to set foot in a bank. But there are many opportunities outside of IT and derivatives. A lot of banks will do work in the social sector because that is where clients are initially obtained and they rise as they do business with the banks," he said.

Rajan was addressing students at the 11th convocation ceremony at the National Institute of Banking Management (NIBM) at Pune.

Chief economic advisor Arvind Subramanian with RBI governor Raghuram Rajan in Pune.

NBFCs warned of outsourcing risks

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Mumbai, April 10: Warning non-banking finance companies (NBFCs) of the risks faced when they outsource a plethora of activities, the RBI has proposed restrictions on the same.

NBFCs cannot outsource functions such as internal auditing, compliance and those related to decision-making like sanctions and management of investment portfolio.

In draft guidelines released on Friday, the central bank said NBFCs will be held responsible for all activities whether they are outsourced or not. "It is imperative for NBFC, when performing its due diligence in relation to outsourcing, to consider all relevant laws, regulations, guidelines and conditions of approval, licensing or registration, the RBI said.

The central bank identified various risks associated with outsourcing, such as strategic risk, reputation risk, compliance risk, operational risk, legal risk, concentration and systemic risk, etc.

"The failure of a service provider in providing a specified service, breach in security/privacy/confidentiality or non-compliance with legal and regulatory requirements by either the service provider or the outsourcing NBFC can lead to financial losses or loss of reputation for the NBFC and could also lead to systemic risks within the entire financial system," the RBI said.