



COST AND MANAGEMENT ACCOUNTANTS SHOULD OPERATE AS BUSINESS CONSULTANTS

Mr R K Dubey, CMD of Canara Bank talks to *The Management Accountant*

Q&A

MA What have been the major operational initiatives taken during your tenure in this organization?

We introduced series of measures in four key areas of banking operations, viz., Delivery Channels, Technology, HR and Customer Service. From January 2013 to date, we opened 1541 domestic branches, second highest in the country including 118 specialized branches.

Recently, branches each at Johannesburg, South Africa and New York, USA were opened to expand our global presence. ATM expansion has been carried out on a mass scale with the opening of 3485 ATMs during the period. Several value additions were made under internet and mobile banking, credit/debit cards, online trading and products/processes were introduced to suit varied customer needs.

To support the growing business and

expansion plan, 12864 persons were recruited across cadres. Customer Service was given added thrust with the appointment of CCSO to act as an internal Ombudsman of the Bank.

In sum, a meticulous planning exercise was drawn and executed to enhance the performance of the Bank.

MA In the recent years nonperforming assets have become a major hurdle to a bank's growth. What suggestions, in this regard, do you have for the banking sector in India? How could professionals like the Cost and Management Accountants support you?

In recent years, asset quality has deteriorated in the banking industry owing mainly to economic slowdown. However, to minimize NPAs, measures including improving recovery, avoiding slippages, continuous follow up of Special

Mention Accounts to avert the slippage, initiation of SARFAESI action to recover dues, stringent measures against willful defaulters, one time settlements, etc are generally enforced.

The services of Cost & Management Accountants would help us to conduct viability study in case of restructuring or rehabilitation and also aid in ensuring the correctness of methods/systems adopted by borrowers in pricing their products.

MA As proposed by the former Finance Minister, consolidation in the banking system is inevitable. How do you see the Public Sector Banks getting affected by the same?

Establishing 3 or 4 globally competitive banks by merger of banks was one of the major recommendations of Narasimham Committee on banking sector reforms. In India, there is large scope for M&As

because of heightened competition in the industry and banks can reap the benefits of economies of scale and scope. More importantly, with India being one of the fast developing economy propelled by the three "success factors" of favorable demographics, globalization and productivity-boosting reforms, the need for stronger banks capable of competing in the global financial landscape is becoming more pronounced in recent years. Consolidation moves have already begun in India with the recent mergers being that of SBI with its associate banks.

However, the experience of 2008 financial crisis and consequent downturn in global and domestic economic growth underscored the need to consider all aspects. Otherwise, there could be a case of marrying in haste, repenting at leisure.

MA India needs large banks to be competitive in the world and the RBI is talking about differentiated bank licenses. How do you see this strategy?

RBI's move on differentiated banking licenses primarily addresses financial exclusion of large rural masses, which is over 40% at present. In my opinion, the objectives of establishing big globally competitive banks and issuance of differentiated banking licenses do not reflect significant contradictions. Moreover, under differentiated banking license system, the companies would be authorized to provide limited banking services.

MA What ways do you feel the competition from NBFCs affecting banking business in India?

Banks and NBFCs have co-existed in India for very long. Compared to NBFCs, which offer specific financial service to customers, banks are at a competitive advantage owing to large products and services base catering to varied financial requirements of customers.

In recent years, NBFCs are registering

strong growth and the share of NBFCs' assets in GDP has increased to 12.5% as at March 2013. Recently, RBI has permitted to take the services of non-deposit taking NBFCs as Business Correspondents for banks in promoting financial inclusion in the country. Since NBFCs are dependent on banks for their funding requirements, growth prospects for both banks and NBFCs in the emerging market like India is mutual. However, regulatory reforms are required to strengthen NBFCs in India.

MA What according to you would be the cost implications of Basel III norms for Indian banks?

Basel III CRAR norms, as prescribed by the RBI, require higher common equity capital. At present, banks are required to maintain total CRAR of 9%, with 7% Tier I capital. This ratio is mandated to increase progressively to 11.5% by March 2019 when the full implementation of the Basel III norm will take effect. Besides, banks may also be advised to maintain additional capital on account of counter cyclical buffer and for domestically systemic banks. Therefore, banks in India need huge additional capital in the form of equity and non equity to maintain minimum CRAR norms upto March 2019. The cost of mobilizing capital is also high at 9-10% for Tier II bonds and similarly cost of servicing equity issue. The higher cost of capital is also expected to impact the rates for the borrowers.

MA For many, the corporate debt restructuring forum has become a place of recourse and they get away with their malice objective, how could we improve this system? Your view and your valuable suggestions please.

Restructuring is an effective financial tool introduced to cushion the adverse impact of economic downturn for both the borrowers and the banks. However, there has been a rapid rise in CDR cases in the

industry owing to economic slowdown for a fairly long period of time and also lack of financial discipline on the part of borrowers.

To overcome the situation, banks' have put in place utmost prudence in assessing the proposals for restructuring and are also contemplating change of managements wherever required. However, strong growth numbers expected in the current financial year would automatically reduce restructuring/ CDR cases in the industry.

MA Recently it is heard that your Bank is looking forward to strengthen its retail loan portfolio. What actions do you propose to augment this policy?

During the current financial year, the following strategies have been vigorously pursued to significantly increase our share of retail credit.

- Minimum growth of 30% under retail loans.
- Focused attention for augmenting housing, vehicle, personal loans & education loan portfolios.
- Tie-ups with Builders, Car dealers and MoU's with reputed educational institutions.
- Increase the number of Retail Asset Hubs in potential areas for garnering more quality proposals and reduce turnaround time.
- Popularize & publicize Online tracking system with facility of web-based applications & ensuring quick disposal thereof.
- New loan originating solutions (Seamless transfer of applications sourced at Branches electronically to Hubs to reduce turnaround time).
- New schemes, viz.,
 - ✓ Yuva Awas Rin – to cater to the needs of young generation
 - ✓ Vehicle Loan for Agriculturists – To cater to the needs of agriculturists, who find it difficult to arrange for income proof such as ITAO/ITR.

MA Is your bank taking any new steps to enhance the rural banking and in extending financial assistance to the Micro, Small and Medium Enterprises?

During FY14, the Bank opened 1027 branches, of which, 79% of them were in rural and semi urban areas and 261 of them were in FI/ unbanked villages. Further, the Bank is striving towards a more inclusive growth by introducing innovative products and services suitable to the rural masses, e.g., Basic Savings Bank Deposit Accounts, Credit Linkage through In-Built Overdrafts, Kisan Credit Cards, General Credit Cards, DRI Scheme, SHGs, Micro Credit Groups, Micro Insurance and Micro Pension under Canara Nayee Disha Scheme, Direct Benefit Transfer, Biometric ATMs.

We have also promoted several corporate social responsibility initiatives aimed at generating self employment avenues and rural development.

MSME lending is among the prime focus areas of the Bank. The Bank has 44 SME Sulabhs (Specialised SME Processing Centres) and 148 SME Branches (specialized outlets for exclusive lending to MSME sector) functioning across the country. Further, the Bank launched several new schemes during the previous financial including Canara MSE Pragati, Canara MSE Unnati, Canara MSE Satkar and Flavour and 4 new schemes during Q1FY15, viz., Canara MSME CAP – for financing against Property, MSME VAHAN – to finance MSME Entrepreneurs for purchase of Passenger Vehicles, Canara MSE SMART - for financing Professionals for business needs and MSE VIJETA – for financing of Women Entrepreneurs.

The Bank has also entered into several MoUs with several companies to increase MSME lending. The Bank has launched 'Sahayata' - a helping hand in cases of incipient sickness of Units facing stress so that they can overcome the situation through restructuring/rehabilitation and

enabled e-Suvidha, to facilitate MSME loan applications and MIS.

As at June 2014, the Bank's credit to Micro, Small and Medium Enterprises (MSMEs) reached 49316 crore, achieving a y-o-y growth of 33%.

MA What is your expectation from the new Government for the development of banking industry?

Economic recovery is underway with the pickup in GDP growth (5.7% - Q1FY15), industrial output, external trade, comfortable CAD, etc. However, volatile inflation is a cause for concern. Control of inflation and consequent relaxation in interest rates would boost credit growth and increase investment. With the implementation of Basel III norms in progress, there is huge capital requirement in the banking industry.

Further, the efficiency in the banking system is saddled with deterioration in asset quality. Suitable measures to revamp the assets portfolio of banks are required to improve profits and margins. SARFAESI Act and laws relating to housing loans need to be strengthened further. Insolvency laws to be brought in the country.

MA In the present scenario what roles could professionals like Cost and Management Accountants play to help the banking sector in enhancing performance? Please suggest in what way our professionals may offer their expertise in other areas of banking.

Cost and Management Accountants have an important role to play in the banking industry. In fact, Cost and Management Accountants should be involved in the planning exercise all along the line and not merely for audit purposes. In my opinion, Cost and Management accountants should operate as business consultants in banks by involving in every activity, process, and function deserving appropriate levels of attention and aid in

achieving greater value and efficiency.

The Institute of Cost Accountants of India has been rendering quality training in the field of Cost and Management Accounting. Seen in the backdrop of heightened competition and shrinking margins, innovative cost effective solutions would help improve operational efficiency in the banking industry.

MA Would you please throw some light on the bank's future growth plan and overseas expansion plan?

We have targeted an aggregate business figure of over Rs.8 lakh crore mark by March 2015. In an attempt to bring about qualitative improvement in business mix, the Bank will enhance its retail business portfolio viz., CASA, retail deposits, retail credit, including housing, vehicle and other personal loans. Focus will continue on technology, fee income and MSMEs both to support business and enhance profitability parameters. We have plans to achieve best asset quality standards in the industry by containing Gross NPA at around 2% and Net NPA around 1.5% by March 2015.

We plan to increase the number of branches to 6000+ and number of ATMs to 10000 by March 2015. Under overseas expansion plan, the Bank has approval of RBI to open branches/subsidiaries/Representative Office at 13 international centres, viz., Dubai International Financial Centre, Frankfurt, Qatar Financial Centre, Jeddah, Birmingham, East Ham & Kingsbury (branches); Sao Paulo, Dar es Salaam (Subsidiaries) and Abuja, Tokyo, Turkey and Indonesia (Representative Offices). Further, the Bank has approached RBI seeking their permission to open branches/offices in 6 more countries, namely, Mexico, Rwanda, Singapore, Canada, Australia and New Zealand. The Bank has a medium term plan of expanding its overseas presence to 15 centres in two years.