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FINANCE

RBI DG Murmu asks bank boards to spend more time on tech risks, ECL transition

By: PTI

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Summary

Reserve Bank Deputy Governor SC Murmu on Thursday asked bank boards to spend more time discussing strategy and technology risks.



Reuters

Mumbai: Reserve Bank Deputy Governor SC Murmu on Thursday asked bank boards to spend more time discussing strategy and technology risks.

Speaking at an event organised by Excellence Enablers, Murmu asked bank boards to focus on the transition to the expected credit loss-based provisioning system, which is kicking in from April next year.

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The central bank's recent regulatory changes free up time for bank boards by doing away with a checklist-based agenda, Murmu said, adding that the bank boards can either finish their meetings early or deepen discussions on matters of importance.

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"My request is to spend more time on strategy and risk, including technology risks. In the near term, ensure readiness for the April 2027 transition on prudential norms," Murmu said in the comments that come amid heightened concerns over cyberattacks and some incidents of breaches being reported by Indian banks, including SBI, ICICI Bank and Bank of Baroda.

Murmu also urged investments in both technology and people, and the correct design of the policy architecture to ensure that no wrong happens.

"Look hard at incentives. Mis-selling rarely begins at the branch counter. It begins with a sales target and a variable pay scale," he said, making it clear that banks have to mull over whether they will incentivise volumes or customer outcomes.

Speaking on the high reliance on external vendors to carry out certain tasks, he said banks have to understand that outsourcing an activity does not mean outsourcing responsibility and the onus for outcomes is with the banks.

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"Risks now travel through contracts, not just through balance sheets," he said.

Elaborating on the upcoming transition to ECL, which he termed a "significant milestone", Murmu said banks will have to provide for losses they expect, not only for losses already incurred and that the remaining Basel-III standards will also take effect.

The system will be shifting to a principles-based approach, Murmu said, adding that a bank board will have more freedom and the same will have to be used responsibly.

With artificial intelligence-based systems being adopted across the system, Murmu said models now drive parts of credit, collections and fraud detection, underlining that bank boards need to know where consequential decisions have been handed over to algorithms.

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The boards also need to ensure that decisioning is explainable, fair and accountable, the DG added.

He also said that risks from climate change or cyberattacks may not have an immediate impact, but the dent shows up in the loan book sooner or later.

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