

Swaminathan J: Learning, judgement and public purpose- lessons from banking

Text of the 12th G Ramachandran Memorial Lecture, delivered by Mr Swaminathan J, Deputy Governor of the Reserve Bank of India, at the Madras School of Economics, Chennai, 30 April 2026.

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Dr. C. Rangarajan, Chairman, Madras School of Economics, Dr. N. R. Bhanumurthy, Director, Madras School of Economics, Shri V. N. Shiva Shankar, Sr. Vice President, Southern India Chamber of Commerce and Industry, members of late Shri G. Ramachandran's family, distinguished guests from industry, academia and banks, esteemed faculty members, staff and dear students, ladies, and gentlemen. A very good morning to all of you.

It is a privilege to deliver the G. Ramachandran Memorial Lecture. I use the word privilege consciously because this occasion brings together three enduring values: the memory of a distinguished public servant, the intellectual setting of the Madras School of Economics, and the long institutional legacy of the Southern India Chamber of Commerce and Industry.

Shri G. Ramachandran belonged to the generation that helped shape India's economic and financial institutions in the early decades after Independence. A First Class First in Economics from Madras University and a topper in the all-India examination for the civil services, he served with distinction in Tamil Nadu, became its youngest Finance Secretary, was later handpicked for the Prime Minister's Secretariat, and eventually rose to become Finance Secretary to the Government of India. He was closely associated with major economic policy measures, including bank nationalisation and poverty alleviation, and later retired as Executive Director of the Asian Development Bank. His career is a reminder that economics and public policy ultimately derive their meaning from their impact on people, institutions, and the broader economy.

I must also acknowledge, with deep respect and admiration, the presence of Dr C. Rangarajan. His contributions to Indian economic thinking, monetary policy, financial sector reform and institution-building occupy a distinguished place in the annals of our economic history. His long stewardship of the Reserve Bank, marked by scholarship, judgment and institutional commitment, has become part of our professional folklore. It is truly humbling to speak in his presence today, and we are grateful for the distinction he lends to this occasion.

I speak today in the presence of eminent economists and students of economics. I do so not as a professional economist, but as a career banker and banking supervisor. My perspective is therefore that of a practitioner. I have great respect for economic theory. I have even greater respect for what happens when theory meets reality.

The subject on which I wish to speak today is on learning, judgment and supervision – lessons from my banking career. My core theme is that banking cannot be understood only through numbers, models or regulations, though all three are important. It must

also be understood through experience, institutional behaviour and the public purpose that finance is meant to serve.

In that sense, a life in banking has offered me three educations: the education of the classroom, the education of the banking counter, and the education of supervision. Each offers a different lens, and together they have helped me understand banking more comprehensively. It is this experience that I would like to share, especially with the students gathered here today.

The Classroom

Let me begin with the classroom. Economics first came to me through examination papers in school and college. The themes were, in many ways, evergreen: demand and supply, money and banking, public finance, international trade, national income and business cycles. Like many students, I understood them well enough to write examinations. But I do not think that, at that stage, I fully appreciated how deeply they would later shape my understanding of banking and finance.

It was only when I entered banking that many of these ideas acquired life. Demand and supply were no longer only curves in a textbook. They could be seen in the appetite for credit, in the pricing of funds, and in the behaviour of borrowers. Money and banking, which had once been a paper in the curriculum, became the world in which I worked every day.

That is why I say, with some hindsight, that a good education in economics is a powerful thing. It teaches you to ask questions that are simple in form but deep in consequence. What are the incentives? Who bears the cost? Who receives the benefit? What happens if a rule changes? What are the unintended consequences? Compared to what?

Take banking. A bank is not merely a building, a balance sheet or an app on your phone. A bank is a bundle of promises. It promises depositors that their money will be safe and available when needed. It promises borrowers that credit will be available on fair terms. It promises shareholders that their capital will be stewarded with care. It promises the regulator that it will conduct itself prudently. Finally, in a country like India, banks also carry broader developmental expectations: to support inclusive economic growth.

Economics helps us understand these promises. It gives us concepts such as moral hazard, adverse selection, information asymmetry, and systemic risk. These are not merely academic expressions. They are everyday realities in banking.

Moral hazard appears when an institution takes excessive risk because it believes someone else will bear the consequences. Adverse selection occurs when a lender, unable to fully distinguish between good and bad risks, ends up attracting weaker asset quality. Information asymmetry creeps in when the bank does not get to know the true financial position of the borrower. Systemic risk can arise when the failure of one institution damages public confidence in many others.

The classroom gives us the language to understand these realities. Practice teaches us how they appear in real life. The financial system is not made up of variables alone. It is shaped by people, institutions, incentives, habits, cultures, memories, fears and, sometimes, greed. That is why the classroom, valuable as it is, must be complemented by experience.

The Counter

This brings me to the second education: the counter.

For many bankers of my generation, banking began at a branch: customers at the counter, vouchers of various colours and hues, ledgers, cash books, loan applications in paper files, site visits, and credit proposals that had to be examined not as classroom exercises, but in actual practice. It was also a period when banking was beginning to change. The recommendations of Dr. Rangarajan's Committees¹ helped usher in the early phase of bank computerisation, and ALPMs² became one of the visible symbols of that transition.

But my subject today is not computerisation. It is about something more basic, and perhaps more enduring. The first lesson one learns in banking is that it is not only about money, accounting or procedures. It is about judgment.

Credit is a judgment about the future. Will this borrower repay? Will this business generate the cash flows it has projected? Is the collateral worth what it is claimed to be? Is the promoter being realistic, optimistic, or over-expansive?

These questions cannot be answered with certainty, because credit is about the future and the information is ever evolving. Risks often reveal themselves in subtle ways: in the manner in which a borrower presents his accounts, in the assumptions behind a project report, or in the enthusiasm of a relationship manager. They require analysis, but also a gut feel for people, markets, and institutions.

After seeing enough loan proposals, borrower meetings and credit committee discussions, one notices signals. A business that is profitable on paper but constantly short of cash, a borrower who explains every delay as temporary, a credit proposal that relies more on collateral than on cash flows, a loan book that grows faster than the bank can monitor, each tells you something. None of these signals is proof by itself. But each is a prompt to pause, ask better questions and look deeper.

The counter teaches you the difference between presentation and reality. The audited balance sheet and information memorandum are useful, but they are not the business. The business is in the factory, on the shop floor, in the market, in the supply chain, in the quality of management, and in the decisions taken. The banker's job is therefore, not to be cynical, but to be curious.

This is where one begins to appreciate the art, as much as the science, of economics and banking. Numbers, ratios and models are essential. They impose discipline, allow comparison and protect us from relying only on instinct. But they do not interpret themselves. Unlike an exact science, banking deals with people, firms, institutions and

uncertainty. A current ratio may tell us something about liquidity, but not everything about the borrower's ability to manage stress. A debt-equity ratio may tell us something about leverage, but not everything about the quality of management. A repayment track record may tell us something about past conduct, but not always enough about future resilience.

This is an important lesson for students of economics. Institutions and firms cannot be understood only through reported numbers. Numbers tell a story, but one must learn to ask what lies behind them: whether profits are supported by cash flows, whether growth is supported by capability, whether risk is understood or hiding in plain sight, and whether governance is a living practice or only a formal structure.

The counter also teaches the human dimension of finance. Behind every loan account is not only a borrower, but a story. Sometimes it is a story of genuine business difficulty: a sound enterprise affected by a shock beyond its control. Sometimes it is a story of poor judgment: expansion undertaken too quickly, debt taken on too easily, or risks underestimated during good times. Sometimes, of course, it is a story of deliberate misconduct. A banker must learn to distinguish between these situations, not because the discipline of repayment is less important, but understanding the cause will help one respond better.

This education of the counter is invaluable. It gives the banker experience, instinct and a feel for risk. But a banker usually looks at risk from the perspective of their own institution. The supervisor must view the same institution from the system's perspective. That shift in perspective brings us to the third education: the education of supervision and public purpose.

The Supervisor's view

When one moves to supervision, the viewpoint changes. A banker is naturally concerned with growth, profitability, customer relationships and competitive position. A supervisor is concerned with safety, soundness, governance and the larger public interest.

This does not mean that the supervisor is indifferent to the difficulties of running a bank. On the contrary, good supervision requires an appreciation of those difficulties. Banking involves uncertainty. It involves taking risks, managing relationships, making decisions with evolving information and responding to competition. But the supervisor's responsibility is different. The supervisor must ask not only whether the bank is successful, but whether it is safe and sound.

This distinction is important. A bank may appear successful for a period because it is growing rapidly, gaining market share and reporting healthy profits. The supervisor's task is to look beneath the surface and form an independent view of the institution.

Indeed, the supervisor's job is not always an easy role to explain. Supervision imposes requirements on banks. It asks for information, reviews systems, questions practices, and sometimes requires changes that may appear burdensome.

The costs of supervision are often visible. They appear in size of compliance teams, reports, audits, technology systems and management time. The benefits, however, are much harder to measure. How does one measure a crisis that did not happen? How does one calculate the value of a bank run avoided, a depositor protected, a fraud prevented, or a control gap corrected before it became a systemic problem?

This is the paradox of good supervision. When it works well, it is often noticed less, not more. Its purpose is not to make headlines. Its purpose is to preserve confidence quietly, so that households can place their savings in banks, businesses can access credit, and the financial system can support the real economy without becoming a source of instability.

That is why supervision must look beyond formal compliance. Compliance asks whether the rule has been followed. Supervision asks whether the underlying risk has been understood and addressed.

A bank may have the required committees, policies and reports, but the real question is whether these mechanisms are effective. Are risks being recognised in time? Are loans being monitored properly? Are governance structures asking difficult questions? Is growth supported by sound underwriting? These questions matter not because supervisors enjoy asking them, but because unchecked weakness in one institution can impose costs on many others.

Seen in this light, banking supervision is not an obstacle but part of the foundation that allows banking to command public trust.

A lightly supervised system may appear efficient for some time, because the costs are lower and growth may be faster. But if that growth rests on weak governance, poor credit standards or hidden risks, the eventual cost is borne not only by shareholders or management, but by depositors, borrowers, taxpayers and the wider economy. The true value of supervision lies in reducing the probability and severity of such outcomes.

For students of economics, this is also an important lesson in public policy. Some public goods are difficult to price because their greatest value lies in prevention. Financial stability is one such public good. It is taken for granted when present, but its absence is deeply disruptive. Banking supervision is one of the institutional mechanisms through which that public good is protected.

Bringing it all together

Let me now draw these strands together. The classroom, the counter and the supervisory perspective may appear to belong to different worlds. But in practice, they are deeply connected. The classroom helps us think clearly. The counter allows us to observe carefully. Supervision enables us to look beyond the immediate institution to the wider system.

For the students in this room, I would offer three simple reflections.

First, take your formal education seriously. Concepts matter. Frameworks matter. The ability to think in terms of incentives, trade-offs and unintended consequences will serve you well in any field you enter.

Second, do not remain confined to concepts alone. Seek exposure to institutions as they actually function. Understand how decisions are made, how risks are taken, how reward structures operate inside organisations, and how policy is translated into practice.

Third, remember that finance has consequences beyond the balance sheet. Credit decisions affect businesses, livelihoods and growth. Weak governance in a financial institution can affect many who had no role in creating the weakness. Sound finance is therefore not only a matter of profitability, but also of responsibility.

The world that you will enter is very different from the one in which earlier generations of bankers and administrators worked. Banking is becoming more digital, more data-driven and more interconnected. Credit can now be originated through platforms. Payments move instantly. Algorithms may influence lending decisions. Non-bank entities play a growing role in financial intermediation.

These changes bring enormous possibilities. They can widen access, reduce costs and improve efficiency. But they also bring new questions: Is the customer being treated fairly? Is the model understandable? Is accountability clear? Are risks being recognised early enough?

These questions cannot be answered by technology alone. They require judgment. They require institutional discipline. They require humility about what we do not know. And above all, they require a sense of public purpose.

That, to my mind, is also the enduring relevance of Shri G. Ramachandran's life and work. He belonged to a generation that was called upon to build institutions, not merely manage them. He worked at a time when economic policy was inseparable from the task of nation-building. The instruments available then were different, the challenges were different, and the financial system was far less complex than it is today. But the essential question remains the same: how do we ensure that finance serves the needs of the economy and the people?

Each generation must answer that question in its own way. Shri Ramachandran's generation answered it through institution-building, public administration and major policy choices. The present generation must answer it through sound regulation, responsible innovation, better governance and a financial system that supports growth without becoming a source of instability. Your generation will have to answer it in ways that may not yet be fully visible to us but which will require the same combination of knowledge, judgement and public purpose..

The financial system of the future will need technical skill, but it will need something more. It will need people who can combine knowledge with judgment, and ambition with public purpose.

In this context, an apt saying of Tiruvalluvar, about application of knowledge, comes to mind:

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*Learn thoroughly what should be learnt,
and let conduct be worthy of the learning.*

It is in that spirit that we remember Shri G. Ramachandran today. His career reminds us that public service is measured not only by the education one acquires, positions one holds but also by the institutions one helps strengthen, and the larger purpose one serves.

I am grateful to the Madras School of Economics, to the Southern India Chamber of Commerce and Industry, and to the family of Shri G. Ramachandran for the honour of delivering this memorial lecture. Thank you. Jai Hind.

¹ Committee on Mechanisation in the Banking Industry (Chair: Dr. C Rangarajan, 1984), Committee on Computerisation in Banks (Chair: Dr. C Rangarajan, 1988)

² ALPMs, or Advanced Ledger Posting Machines, were single-user computer systems introduced in Indian banks during the 1980s to automate ledger maintenance and branch-level banking operations.