

Swaminathan J: Resilience by design - lessons from India's banking sector

Speech by Mr Swaminathan J, Deputy Governor of the Reserve Bank of India, at the School of International and Public Affairs (SIPA), Columbia University, New York City, 1 June 2026.

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Distinguished faculty members, dear students, ladies and gentlemen.

It is a pleasure to be here at Columbia University's School of International and Public Affairs. As many of you would know, SIPA was established in 1946, in the aftermath of the Second World War, at a time when the world was rebuilding institutions for a new international order. Its purpose was to deepen understanding of global affairs and prepare professionals for public service across countries, institutions and disciplines.

We meet at a time when the global policy conversation is again crowded with large themes: geopolitics, climate change, artificial intelligence, technological disruption and the reordering of supply chains. Against that backdrop, banking resilience may seem like a quieter subject. But it has one distinct feature: when it is absent, its importance is immediately recognised. A weak banking system can quickly transmit stress from financial balance sheets to firms, households, public finances and the broader economy.

It is for this reason that I thought banking resilience would be an appropriate subject for a school of international and public affairs, and I would like to approach it today through India's experience.

India's current position: strength with vigilance

India today stands on a relatively strong macroeconomic footing¹. Even amid geopolitical uncertainty, supply-chain disruptions and volatile commodity conditions, domestic economic activity has shown resilience, supported by strength in industrial and services activity, broad-based demand and improving corporate performance. Inflation is within our tolerance band and external vulnerabilities remain manageable. The Indian financial system enters this uncertain phase with strength: healthier balance sheets, comfortable capital buffers, improved profitability and non-performing assets at multi-decade lows.

This position of strength is encouraging. But one message we consistently emphasise to banks and other regulated entities is that the best time to build resilience is when conditions are favourable. Central banks are sometimes seen as cautious voices in otherwise optimistic times, expected to ask difficult questions just when the party appears to be going well². In banking, that is often exactly the point. Risk has a habit of building quietly in good times and introducing itself loudly when conditions change. Buffers, governance and risk discipline must be strengthened when growth is strong, asset quality appears comfortable, and risk appetite naturally rises. Resilience must therefore be built before it is tested.

That is the idea behind the theme of my remarks today: resilience by design. India's recent banking resilience reflects policy learning, supervisory vigilance, stronger prudential frameworks, transparent recognition of stress, credible repair mechanisms and improvements within banks themselves.

For a public policy audience, the important question is not only whether banks are strong today, but how that strength is built and preserved. Banking resilience does not arise automatically from growth or favourable conditions. It has to be designed at multiple levels: in the rules that govern banks, in the supervisory systems that detect vulnerabilities, in the resolution architecture that addresses stress, and in the behaviour of banks themselves. India's recent experience suggests that resilience is strongest when these elements reinforce one another.

Let me illustrate this idea through five recent dimensions of resilience by design: transparent recognition of stress, balance sheet strengthening, stronger supervision, calibrated and adaptive regulation, and resilience within banks themselves.

Recognition of stress

The first dimension is transparent recognition of stress.

Banking practice teaches us that risk often builds when conditions appear favourable. During an upswing, collateral values look adequate, projected cash flows appear reasonable, and optimism becomes embedded in credit appraisal. A project exposure, restructuring decision, collateral valuation or sectoral concentration may look manageable for one bank. But when similar assumptions are replicated across institutions, they can create macro-financial vulnerability.

India's post-2015 asset quality experience brought this issue into sharp focus. The stress that became visible after the Asset Quality Review had built up over several years. It reflected a combination of factors, including rapid credit growth in certain sectors, challenges associated with large and long-gestation projects, changing economic conditions, delays in stress recognition, and, in some cases, gaps in risk management and governance frameworks.

The Asset Quality Review was more than an accounting exercise. It changed the information regime of the banking system. Recognition required banks to provision, owners to recapitalise, borrowers to negotiate, supervisors to intervene, and markets to reassess risk. Transparency changes incentives.

Recognition is rarely the most popular item on the bank board's agenda. It affects reported profitability, capital planning, market perception and, at times, internal confidence. But delayed recognition is usually more costly. It weakens credit discipline, obscures the true allocation of losses and increases the eventual burden of resolution. Timely asset quality recognition is therefore part of the institutional architecture of financial stability.

Balance sheet strengthening

Recognition by itself is not enough. It must be followed by a credible chain of action leading to balance sheet strength. Recognition without resolution can leave banks' balance-sheet constrained. Capital support without governance improvement may improve financial metrics but not contribute to resilience. Resolution without stronger underwriting standards can sow the seeds of the next cycle of stress.

In India, this phase involved coordinated action across the public policy ecosystem. The Government provided important elements of the legal, fiscal and institutional architecture. The Insolvency and Bankruptcy Code strengthened the resolution environment and altered the relationship between creditors and borrowers. Recapitalisation of public sector banks helped absorb recognised losses and restore lending capacity. Public sector bank consolidation sought to create institutions with greater scale and capital strength. Depositor protection, recovery laws, credit guarantees, financial inclusion initiatives and digital public infrastructure also contributed to a deeper and more formal financial architecture.

The banking system itself also undertook significant balance sheet strengthening. Banks improved provisioning, pursued recoveries and write-offs, raised capital and placed a sharper focus on asset quality. The movement towards more transparent, better-provisioned and diversified balance sheets has been an important part of the resilience journey.

Stronger supervision and prudential discipline

The Reserve Bank's supervisory approach has evolved significantly. The focus is no longer limited to entity-level compliance or point-in-time inspection findings. It has moved towards a more holistic, risk-based and forward-looking assessment of supervised entities, covering governance, assurance functions, conduct, business models, technology risk, cyber resilience and emerging balance sheet vulnerabilities.

A key element of this approach has been deeper engagement with the Boards and senior management of banks. Supervisory findings are increasingly used not only to identify deficiencies, but also to understand their root causes: whether they arise from weak governance, inadequate risk management, ineffective internal audit, poor compliance culture, technology gaps or misaligned incentives. The objective is to ensure that issues are addressed at their source, rather than merely corrected at the surface.

The supervisory toolkit has also been strengthened. Off-site surveillance, stress testing, vulnerability assessments, early warning indicators, cyber risk indicators, thematic reviews, conduct-related assessments and micro-data analytics are now important parts of the supervisory process. These tools help supervisors identify patterns across institutions and activities, rather than focusing only on individual balance sheets in isolation.

This has also required a wider view of assurance within banks. Supervision cannot substitute for the responsibility of the Board, senior management, risk management, compliance, internal audit and external audit. Supervision can only act as an additional layer of oversight, but resilience must first be built within the institution.

The larger point is that modern supervision is not merely about checking compliance with rules. It is about asking whether governance is effective, whether risks are understood and priced correctly, whether control functions have stature, whether customer conduct is fair, whether technology risks are managed, and whether the institution can continue to perform its core functions under stress.

Calibrated and Adaptive Regulation

The fourth dimension is calibrated and adaptive regulation.

Modern financial intermediation no longer fits neatly within traditional institutional boundaries. Credit, payments, customer acquisition, underwriting, servicing and technology support may involve banks, NBFCs, fintech entities, payment systems, lending service providers and third-party technology partners. This does not reduce the importance of banks; it makes the system more interconnected and the transmission of risk more complex.

The regulatory response, therefore, must be both entity-aware and activity-aware. The resilience of a bank or NBFC depends on its governance, capital, liquidity, risk management and conduct. At the same time, where similar activities create similar risks, regulatory attention must remain aligned with the underlying risk, irrespective of institutional form.

This approach is reflected in recent measures such as scale-based regulation for NBFCs, tier-based regulatory frameworks for urban cooperative banks, digital lending guidelines, IT governance requirements and directions on fraud risk management. It was also visible during the Covid-19 period, when relief measures were designed to provide timely support while retaining a path back to normal prudential treatment as conditions improved. The use of sunset clauses reflected an important lesson from earlier crisis episodes: support measures should cushion near-term stress without weakening long-term risk discipline.

RBI's initiatives also illustrate its endeavours at calibrated regulation: protecting customers without stifling innovation, supporting inclusion while ensuring responsible conduct, and reducing unnecessary friction without diluting safeguards.

In a sense, resilience by design also means regulation by continuous review. Rules must be stable enough to provide certainty, but adaptive enough to remain relevant. They must be right when framed, and kept right over time as markets evolve, technology changes and evidence accumulates. This has also informed recent institutional initiatives³ within the Reserve Bank to strengthen periodic review of regulations and deepen stakeholder consultation.

Resilience within banks

The fifth dimension is resilience within banks themselves.

Governments can create frameworks, and regulators can set expectations, but resilience has to be embedded inside banks. It must be visible in how banks originate

assets, price risk, manage liabilities, invest funds, monitor stress, govern technology, treat customers and escalate concerns.

A significant change in recent years has been the shift in portfolio behaviour. Earlier stress was concentrated in large, lumpy corporate and infrastructure exposures. Banks have since moved towards more granular portfolios, better-rated corporate exposures, retail, MSME and other segments with clearer risk assessment. These segments are not risk-free. Retail and unsecured credit can create vulnerabilities of their own. However, a diversified and better-monitored portfolio is structurally different from one dominated by a few large, correlated exposures.

This bank-level transformation matters because the durability of resilience depends on behaviour inside institutions. Public policy can create the framework, but banks must convert lessons into practice. In the end, resilience is built through everyday decisions: what is financed, how risk is priced, how exceptions are approved, how early warnings are acted upon, how technology risks are governed and how accountability is enforced.

The next tests: complexity and uncertainty

Having discussed some recent initiatives and experiences, it is useful to turn briefly to what lies ahead. The next phase of banking resilience will be less about addressing known balance sheet stress and more about managing complexity and uncertainty.

Recent years have shown that shocks can arise from very different sources: pandemics, geopolitical tensions, supply chain disruptions, commodity price volatility, cyber incidents or sudden shifts in market sentiment. The task, therefore, is not only to prepare banks for known risks, but also to make them adaptable to risks whose timing, form and transmission may be difficult to predict.

Retail credit, digital lending and microfinance have expanded access, but they also require careful underwriting, fair recovery practices and close monitoring of borrower leverage. Similarly, technology can make banking faster, but it does not automatically make it wiser. AI, cyber risk, third-party dependencies, climate-related risks and financial interconnectedness will therefore require ongoing attention from banks and supervisors.

Conclusion

Let me conclude with one broad thought. Banking resilience is not a fixed achievement. It is a continuing institutional project. As India's recent experience has shown, it is built through discipline across the balance sheet and beyond, transparent recognition of stress, balance sheet strengthening, calibrated and adaptive regulation, and responsible conduct within banks.

Strong banks require capital and technology, but they also require judgment, governance, accountability and institutions that learn. That, perhaps, is the central public policy lesson: resilience is not only about withstanding the last shock, but about building the capacity to respond well to the next one.

Thank you. Jai Hind.

¹ The RBI Bulletin, May 2026, notes that domestic economic activity exhibited resilience in April 2026, with industrial and services sectors maintaining strength across several segments; CPI inflation stood at 3.5 per cent in April with core inflation steady; net FDI remained positive for the second consecutive month in March; and listed private non-financial companies recorded double-digit growth in aggregate sales and operating profit in Q4:2025-26. It also notes that listed banking and financial companies saw higher revenue growth and a surge in net profit growth, largely reflecting lower provisions and contingencies.

² "Taking away the punch bowl just when the party is getting going" is a famous financial metaphor attributed to former Federal Reserve Chairman William McChesney Martin in 1955

³ The Reserve Bank had earlier undertaken a time-bound Regulations Review Authority 2.0 exercise to streamline regulatory instructions and reduce compliance burden, including withdrawal or repeal of redundant circulars and rationalisation of returns. More recently, the Reserve Bank has strengthened the institutional mechanism for regulatory review through a Regulatory Review Cell in the Department of Regulation, intended to ensure a comprehensive and systematic review of regulations every five to seven years, supported by an external Advisory Group on Regulation to channel industry feedback into the review process.