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Why a 'bad bank' may not work well

Madan Sabnavis | January 15, 2021

THE HINDU BusinessLine

While shifting toxic assets to a bad bank will help banks lend more, it does not address the core issue of NPAs

Bad bank is an idea which comes up every year before the Budget because there are expectations that the concept will finally germinate with the government setting aside funds for its formation. The thought evokes arguments which are relevant today as we have a situation where we have high level of NPAs (non-performing assets) and the future is uncertain. Also, there have been several attempts made to resolve the issue, with the IBC (Insolvency and Bankruptcy Code) being the latest, but the progress has been limited. More importantly, the quantum of NPAs is likely to increase post returning to normalcy.

Simply put, the bad bank buys all NPAs or some of the larger ones of public sector banks (PSBs). The balance sheet of the sellers shrink as these assets are off their balance sheets. This saves capital for banks which can start fresh lending. Besides, banks are lending agencies and should ideally spend time more on business rather than recovery.

There can be different models of the bad bank which can buy loans of the private banks too and hence work for the system. But one should remember that while the NPAs can be transferred from the bank to the bad bank, the overall quality of the loan portfolio of the country does not really change. It also means that there is a write-down of the asset which is still a loss for the system.

The RBI's recent data show that the average recovery rate on NPAs through IBC, ARCs (asset reconstruction companies), DRTs (debt recovery tribunals) and SARFAESI is 23.2 per cent; this is pushed up due to IBC that has a recovery rate of 45 per cent. The performance of others is lower, ranging between 4 per cent and 27 per cent.

There is little reason to expect that the bad bank will do better than this. Hence we will not really be solving the problem, but merely transferring it to another entity which makes the balance sheets of banks look better. In turn, banks may find it easier to raise capital in the market.

While the bad bank will address the issue of freeing capital of banks which is a positive outcome, it does not address the core issue of NPAs — that is, why do they keep rising? A certain amount of NPAs are bound to exist in any system as some firms will fail and a thumb rule can be that a rate of around 4 per cent should be tolerable in an emerging market where risks are high, given the economic environment. The spurt in NPAs is often due to systemic issues that are not addressed.

Not a simple business

Directed lending, where banks in the public sector perforce have to lend to certain segments, is the main factor which goes beyond RBI regulation. Often sectors such as SMEs become the pivot for the government which, in turn, compels PSBs to meet targets. Giving quick loans have merits but banking is not a simple business which can be run on algorithms.

The other factor that leads to such pile up of NPAs is the constant restructuring of debt. The lesson of the 2011 lending story which was directed to infra has not yet been absorbed and the justification of such acts leads to this pile-up. Unless this changes and banks are given the freedom to run their books as a business and not as a conduit for bringing about social change, these challenges would always surface.

Therefore, a bad bank can keep absorbing the NPAs at a written-down cost from banks, and this will be a perennial stream. This may not be the idea of a bad bank as such a bank is supposed to deal with a stock of NPAs and not the subsequent flows. Else, it creates the economic moral

hazard on the part of both the banks which lend and the customers who borrow as this becomes a perverse win-win situation for everyone.

Bank capitalisation is a better idea. Let us see how this plays out. PSBs tend to create more NPAs as they perforce become the instrument of change for successive governments. As the NPAs increase, provisions have to be made which lower their profit or leads to losses and which, in turn, denudes their capital.

In such a situation, the bank cannot lend, and this is where the government has stepped in through capitalisation measures. Ideally, the government makes provisions in the Budget for capitalising banks. The other innovative financial engineering is the recapitalisation bonds. The government issues bonds which are subscribed by banks which in turn is passed back to the banks as capital. There is no transfer of funds in effect and the government pays an interest to the banks on the bonds that have been subscribed. Either of these actions is appropriate because the PSBs are owned by the government and in a way pays for the NPAs.

However, when a bad bank comes in things will be different. The bad bank has to be funded by the government and probably investors would put in their share. Investors may not be interested as there are already ARCs in the system which have not really been effective. The problem with ARCs was that they wanted banks to take a higher hair cut which was not acceptable.

A government funded bad bank will have less of an issue as PSBs will happily sell to the bank at any price as both the entities are government owned. Once private investors join the BB, things will be different, and will resemble an ARC with government ownership.

Therefore, the ownership structure of the bad bank will determine the likely success of the enterprise which transfers bad assets to a central agency.

The bad bank concept hence looks like an escape route to deal with NPAs. Prudence dictates that we persevere with the IBC and probably expedite processes as it has proved to be a good option. Alternatively, providing

capital directly shifts the onus to the government which may be more appropriate.

Piramal wins race to acquire DHFL

Our Bureau Mumbai |

January 15, 2021

BUSINESSLINE

File Photo of Ajay Piramal, Chairman, Piramal Group. - BusinessLine

Debt resolution proposal got 94% of lenders' votes

After multiple rounds of bidding and counter bids, Piramal Capital and Housing Finance Ltd has won the race to acquire Dewan Housing Finance Corporation Ltd. The voting by the Committee of Creditors ended today.

The debt resolution proposal submitted by Piramal received 94 per cent of the lenders' votes, according to banking industry sources. The proposal submitted by Oaktree Capital is understood to have secured around 45 per cent of the votes. The official numbers will be disclosed by the DHFL administrator over the weekend.

"Total recovery comes to about 42 per cent (of the total creditors claim of about **₹81,000 crore**). This recovery is very good under IBC process compared to many other accounts. The winning bidder is giving **₹12,700 crore upfront cash.**

Balance recovery is in the form of **non-convertible debentures** (NCDs), with a **moratorium in the first two years** and payable from the third year," said a banker.

Twists & turns

The resolution process has gone through multiple twists and turns over the last few months. In the first round of bidding, Oaktree had emerged the highest bidder in terms of value, but the Adani group submitted an out-of-turn offer that was higher. This forced the bidders to call for another round of bidding.

As reported by ***BusinessLine*** earlier, Piramal had scored higher on the evaluation parameters of the CoC though both Oaktree and Piramal had submitted bids in the range of a little over ₹38,000 crore. However, Piramal's overall score was 94 while Oaktree's bid was given 85 points in the evaluation metrics scored by DHFL administrator. Oaktree had then questioned the evaluation metrics and had threatened to take legal recourse if the lenders did not give adequate consideration to its bid. On Friday, Oaktree did not comment on its future course of action as the official results of the voting are yet to be made public.

If Oaktree challenges the outcome, the actual recovery will take time. The bid resolution by Piramal will have to be ratified by the Reserve Bank of India and the National Company Law Tribunal.

This process could take 90 days under normal circumstances. However, there could be further delays if Oaktree challenges the lenders' decision.

The case may then go to the Supreme Court. This will be another test case under IBC as DHFL is the first finance company to be referred to the NCLT by the Reserve Bank of India.

DHFL's FD and NCD-holders May Lose Twice Over unless They Intervene

Sucheta Dalal

13 January 2021 / *MONEYLIFE*

Consider the irony. On the one hand, fixed deposit (FD) and non-convertible debenture (NCD)-holders are on the verge of losing a significant chunk of their tax-paid, hard-earned savings in Dewan Housing & Finance Ltd (DHFL), because they relied on dubious and falsely high credit ratings. On the other hand, when a complaint about rating agencies has landed up before the Competition Commission of India (CCI), the market regulator SEBI (Securities and Exchange Board of India) has suddenly woken up to its territorial rights and asked CCI to keep off its jurisdiction, knowing full well that compromised ratings are the root cause of the losses inflicted on investors.

Another irony is that the rating agency that has approached the CCI is one of the two that had rated DHFL's NCDs so highly. Both, CARE and Brickworks, gave DHFL NCDs 'AAA' rating (highest possible) from July 2016 to January 2019 and, then, suddenly, downgraded them to default rating (D), in a span of just three months after DHFL started defaulting. But this column is not about regulators' turf wars but about the fate of investors crushed by the collapse of DHFL.

For starters, this is one more bankruptcy resolution that is moving ahead in record time, after the sale of the steel companies. About Rs35,000 crore may be recovered (against admitted claims of Rs87,083 crore) Also, Kapil Wadhawan's attempts (like those of the Ruias of Essar Steel) to derail the resolution have failed. Two branches of the Wadhawan family had been allowed to run riot and decimate a lot of wealth in poorly-supervised listed entities. While Kapil and Dheeraj Wadhawan have looted and run DHFL to the ground, their relatives did the same with Housing Development and Infrastructure Ltd (HDIL) and Punjab and Maharashtra Cooperative Bank (PMC Bank). Members of both families are now in jail.

Purely from a macro perspective, that 35% of the money in case of DFHL's outstanding is being recovered, and rather quickly by Indian standards, through bankruptcy proceedings and several thousand jobs saved, is a positive outcome. The government and regulators will chalk it up as a big success.

FD- and NCD-holders are the biggest lenders to DHFL at Rs45,000 crore and they represent the savings of ordinary people. Another Rs35,000 crore is owed to commercial banks; but they dominate the committee of creditors (CoC) and will influence the outcome. The losses, even after a successful sale, are massive—over Rs52,000 crore. Other than those who invested up to Rs2 lakh (who will get back their entire principal, not interest), the FD-holders stand to lose 75% of their investment, while those with secured NCDs will lose 60%.

The key issue here is: What happens to Rs33,309 crore siphoned away by the Wadhawans which was established by the Grant Thornton forensic audit report? Can any part of it be recovered? If, yes, who gets the recovery proceeds, if any? Shockingly, this money may go to the new bidders, depending on who wins. At the moment, there are two serious bids for DHFL: one from the Piramal group and another from Oaktree Capital Management. A final decision will be taken on 14th January.

One of DHFL's largest investors, 63 Moons Technologies (formerly Financial Technologies), has raised some valid concerns and invited FD-

and NCD-holders to join it in opposing the resolution plan at the National Company Law Tribunal (NCLT). It has demanded that any future recoveries should go only to financial creditors. There are valid reasons for its worry. According to the Oaktree proposal, accessed by an investor, the recoveries will be a pass through to financial creditors, so long as the company's assets are not impacted.

In the event any transactions are avoided or set aside by the Adjudicating Authority under Sections 43, 45, 47, 49 or 50 of the IBC, and any amounts are received by the Corporate Debtor, such amounts shall be to the benefit of the CoC. In the event any transactions are avoided or set aside by the Adjudicating Authority under Section 66 of the IBC, and any amounts are received by the Corporate Debtor, such amounts shall be to the benefit of the Resolution Applicant.

Provided however, to the extent the transactions avoided or set aside by the Adjudicating Authority under Sections 43, 45, 47, 49 or 50 of the IBC affect the value, recoverability and the assets of the Corporate Debtor, recoveries from such transactions shall be to the sole benefit of the Resolution Applicant.

However, the Piramal plan has assigned a value of one rupee to the massive money siphoned off and all recoveries will accrue to the new company as a big bonanza. Unless investors ensure that NCLT spells out what happens to this money, FD- and NCD-holders could end up losing again.

2.13.3. The Resolution Applicant ascribes value of INR 1 in respect of any transactions that may be avoided/ set aside by the NCLT in terms of section 66 of the IBC. Accordingly, any positive recovery as a result of reversal of transactions avoided or set aside by the NCLT in terms of section 66 of the IBC would accrue to the sole benefit of the Resolution Applicant. All the costs and expenses incurred or to be incurred towards litigation pertaining to section 66 of the IBC shall be to the account of the Resolution Applicant.

Remember, all of India's elite investigation agencies, such as the Central Bureau of Investigation (CBI), the Enforcement Directorate and the Serious Frauds Investigation Office (SFIO) as well as economic offences wings of the police in some states, are investigating the DHFL fraud and would, hopefully, manage to recover at least some of the money siphoned

off. Since neither of the current bidders has made bids on the expectation of substantial recovery of this siphoned off money, should they get a bonanza, if there is any recovery?

63 Moons fears that banks may find a way to exercise personal guarantees by the Wadhawans and only FD- and NCD-holders would be left high and dry, if the siphoned money is, indeed, recovered. The documents, painstakingly obtained by an investor, show that financial creditors (read FD-/NCD-holders), who do not accept the resolution, will get only liquidation value in cash (about Rs30,000 crore), while other financial creditors would then divide the balance as per the approved resolution (the bid amount of about Rs38,000 crore minus costs). The difference between the two is hefty. All this only goes to show that investors need to put up a fight to protect their rights and look at some interesting facts, painstakingly obtained by a diligent investor who wants to remain unnamed.

The National Housing Bank (NHB), a regulator, which abjectly failed to exercise adequate oversight over DHFL, has filed a preferential claim over other financial creditors to get Rs2,436.67 crore. Why should NHB, a subsidiary of the Reserve Bank of India (RBI), get this benefit? In response to an investor's objection to this preferential treatment, the administrator has said that 'the legalities of NHB's claim' will be decided by NCLT. But most investors who stand to lose are, probably, unaware of the proposal.

FOURTH; Setting aside an amount from the Resolution Plan Payment in relation to the interim arrangement entered into with National Housing Bank ("NHB") relating to the application filed by it before the Hon'ble National Company Law Tribunal, Mumbai bench in Interlocutory Application No. 1104 of 2020 in Company Petition (IB) 4258 (MB) of 2019 ("NHB Application")

Another concern is that legal advisers of the CoC (read bankers) will walk away with Rs100 crore in fees as seen in the table below.

	(Rs Cr)
(a) CoC Advisors and CoC Legal Advisors Fees already paid	23.00
(b) CoC Advisors and CoC Legal Advisors Fees payable in future	30.00
(c) Corpus for Legal expense for representing Administrator and/or Corporate Debtor as proposed in resolution plans	30.00
Total for Corpus to be created	**83.00**

Separately, Ernst & Young, as process advisers to the administrator, will get a success fee of Rs15 crore on successful resolution and legal advisers will get Rs2 crore.

*A corpus of INR 30 (thirty) Crores to be created and maintained in a bank account held with Union Bank of India towards services rendered by advisors appointed by (or on behalf of) the CoC in connection with the CIRP of DHFL (including legal advisors Cyril Amarchand Mangaldas and J. Sagar Associates and senior counsels and other legal counsel (collectively, the "**CoC Legal Advisors**"), SBICAPS, Dun & Bradstreet, and other such advisors as may be appointed from time to time (collectively along with the CoC Legal Advisors, the "**CoC Advisors**"), whether such services are rendered prior to or post the approval of the resolution plan by the Hon'ble National Company Law Tribunal and/ or in connection with the implementation of the successful resolution plan or in connection with the CIRP process (including GST and any other applicable taxes net of input credit received (if any) towards such services rendered).*

Even the debenture trustees, Catalyst Trusteeship and IDBI Trusteeship Services, who have failed to protect investors, are being taken care of in the resolution by creating a corpus of Rs7 crore for their costs. Is it any

wonder that debenture trustees are careless about their fiduciary obligations and duties?

*(b) Adjustments of payouts to the FD holders and the NCD holders: All the expenses incurred and likely to be incurred by the Authorised Representative ("**AR**") of the FD holders and the respective debenture trustees ("**DTs**") (being Catalyst Trusteeship Limited and IDBI Trusteeship Services Limited), in relation to discharge of their duties as AR or DTs, as the case may be, in respect of the CIRP of DHFL, including all fees, costs, expenses and out-of-pocket expenses incurred (other than those paid out or to be paid out as CIRP Costs), as well as litigation expenses incurred or likely to be incurred, in connection with any legal matter or proceedings in which the AR and/or DTs are the parties or are made parties and with respect to appointment of a designated counsel or any senior counsel(s) to represent them in all such legal proceedings before any judicial forum, will be deducted from the cash recoveries to the FD holders and the debenture holders, as the case may be, in proportion of their admitted debts. In this respect, a litigation corpus fund of INR 7 Crores is to be created for any future or on-going litigation expenses likely to be incurred by the AR and/or the DTs, which will be created from the cash recoveries to the FD holders and the debenture holders, as the case may be, in proportion of their admitted debts.*

The tragedy is that DHFL's losses could have been contained if the regulators had acted swiftly. The company has been tottering since late-2018. In December of that year, Debashis Basu wrote how loans to promoters and poor disclosure were used to boost net worth and valuation. Even earlier, we wrote how Templeton Mutual Fund and Aditya Birla Mutual Fund subscribed to DHFL's NCDs without revealing that the Wadhawans had pledged shares against them. The regulator did nothing. Today, investors stand to lose heavily from a successful resolution, with no sign of justice. There is no guarantee that this kind of fraud will not happen over and over again. After all, no institution has been inflicted with exemplary punishment for what is a failure of fiduciary duty, at best, and collusion, at worst.

DHFL:

Investor Urges RBI To Stop Fraud by Administrator, Debenture Trustee, Banks & Advisors upon FD & NCDs Holders

Moneylife Digital Team

15 January 2021

An investor of Dewan Housing Finance Corp Ltd (DHFL) has urged Shaktikanta Das, governor of Reserve Bank of India (RBI) to stop 'self-serving fraud' being allegedly perpetrated by the administrator, debenture trustees, banks and their advisers upon fixed deposit (FD) and non-convertible debenture (NCD)-holders of the crisis-hit company through "illegal, unfair and inequitable resolution proposals put to vote before helpless FD and NCD holders."

An investor of Dewan Housing Finance Corp Ltd (DHFL) has urged Shaktikanta Das, governor of Reserve Bank of India (RBI) to stop 'self-serving fraud' being allegedly perpetrated by the administrator, debenture trustees, banks and their advisers upon fixed deposit (FD) and non-convertible debenture (NCD)-holders of the crisis-hit company through "illegal, unfair and inequitable resolution proposals put to vote before helpless FD and NCD holders."

"The debenture trustee Catalyst Trusteeship has failed miserably in its fiduciary duties to watch the interest of NCD holders. It has been acting hand-in-glove with the cronies (as also affirmed by the Bombay High Court). The DHFL administrator too is silent spectator in the present resolution proceedings. Instead of watching interests of the FD and NCD holders, he is using the company money to protect the interests of credit rating agencies and debenture trustees in petitions pending before the Punjab and Haryana High Court and District Consumer Forum, Chandigarh," the letter says.

According to the letter, if future recoveries are to accrue to financial creditors as in the Oaktree resolution plan, the new management of DHFL

would not exercise due diligence in the Section 66 applications pending before the National Company Law Tribunal (NCLT). It says, "The total value of claims filed by the DHFL administrator is over Rs. 33,000 crore. The earlier promoter of DHFL and entities, who committed the fraud would benefit at the cost of public money. Hence RBI must step into the shoes of the DHFL administrator in all applications filed under section 66. Future recoveries in section 66 applications must accrue to the financial creditors. The evaluation of various resolution plans must be revised accordingly and put to vote again."

As *Moneylife* pointed out FD and NCD-holders are the biggest lenders to DHFL at Rs. 45,000 crore and they represent the savings of ordinary people.

Another Rs35,000 crore is owed to commercial banks; but they dominate the committee of creditors (CoC) and will influence the outcome.

The losses, even after a successful sale, are massive—over Rs.52,000 crore.

Other than those who invested up to Rs. 2 lakh (who will get back their entire principal, not interest), the FD-holders stand to lose 75% of their investment, while those with secured NCDs will lose 60%.

Moreover, under the Piramal plan, any money recovered from the Wadhawans will go to the DHFL while financial creditors will get nothing. In effect, whichever bid is accepted, it seems like a raw deal for FD and NCD-holders who include individuals, trusts, pension funds and companies who went by the AAA credit rating (highest) accorded by rating agencies to the DHFL group, despite plenty of talk about their shady dealings.

The key issue here is: What happens to **Rs 33,309 crore siphoned away by the Wadhawans** which was established by the Grant Thornton forensic audit report? Can any part of it be recovered? If, yes, who gets the recovery proceeds, if any? Shockingly, this money may go to the new bidders, depending on who wins. At the moment, there are two serious bids for DHFL: one from the Piramal group and another from Oaktree Capital Management.

IMF backs India's farm reforms: 'Will reduce middlemen, enhance efficiency'

PTI | January 15, 2021

Gerry Rice, Director of Communications at the International Monetary Fund (IMF), said the new measures will reduce the role of the middlemen and enhance efficiency. "We believe the farm bills do have the potential to represent a significant step forward for agricultural reforms in India," Rice said at a news conference in Washington on Thursday

The IMF believes the farm bills passed by the Indian government have the potential to represent a significant step forward for agricultural reforms, but a social safety net is needed to protect those who might be adversely impacted during the transition to the new system, a spokesperson of the global lender said here.

Gerry Rice, Director of Communications at the International Monetary Fund (IMF), said the new measures will reduce the role of the middlemen and enhance efficiency. "We believe the farm bills do have the potential to represent a significant step forward for agricultural reforms in India," Rice said at a news conference in Washington on Thursday.

"The measures will enable farmers to directly contract with sellers, allow farmers to retain a greater share of the surplus by reducing the role of middlemen, enhance efficiency and support rural growth," he said. "However, it is crucial that the social safety net adequately protects those who might be adversely impacted during the transition to this new system," the spokesperson said responding to a question on the ongoing protests by farmers against the laws in India.

This can be done by ensuring that the job market accommodates those that are impacted by the reforms, he said. And of course, the growth benefits of these reforms will depend, critically, on the effectiveness and the timing of their implementation, so need to pay attention to those issues as well with the reform," Rice said.

Thousands of farmers, mostly from Punjab and Haryana, have been camping at several Delhi border points, demanding a complete repeal of

the three farm laws and legal guarantee of minimum support price for their crops. Enacted in September last year, the three laws have been projected by the Centre as major reforms in the agriculture sector that will remove middlemen and allow farmers to sell their produce anywhere in the country.

However, the protesting farmers have expressed their apprehension that the new laws would pave the way for eliminating the safety cushion of the Minimum Support Price (MSP) and do away with the "mandi" (wholesale market) system, leaving them at the mercy of big corporates.

Budget must take steps towards privatising ownership of public sector banks

Radhika Pandey , D Priyadarshini | January 16, 2021

With a predominantly bank-led growth strategy, banks face the daunting task of managing the pandemic's impact on their balance sheets while spearheading the country's economic recovery

Recent reports suggest that the upcoming budget may include proposals for a Bank Investment Company (BIC), anchoring the government's shareholding in its banks. With a predominantly bank-led growth strategy, banks face the daunting task of managing the pandemic's impact on their balance sheets while spearheading the country's economic recovery. A bulk of the responsibility will fall on public sector banks (PSBs) which dominate the banking sector.

A fiscally constrained government, therefore, appears to be looking at alternatives to reduce its burden as the spectre of another capital infusion looms — the gross non-performing assets (GNPAs) of PSBs are projected to increase to 16.2 per cent in the July-September quarter, in a baseline scenario, up from 9.7 per cent in the same period last year, with likely implications for capital adequacy. Moreover, the efficacy of recapitalisation of banks by the government is also under scrutiny. Despite capital infusion of nearly Rs 3.1 lakh crore from 2015-16 to 2019-

20, PSBs have continued to underperform. The Comptroller and Auditor General (CAG) has sought details on bank recapitalisation since 2016-17, including the basis for distribution of capital among banks and the impact on their performance.

The BIC was proposed by the P J Nayak Committee constituted by the RBI in 2014 to examine governance at public and private sector banks. The committee observed that if the PSBs continue to be governed badly, recapitalisation would only impose significant fiscal costs without the corresponding benefits to its principal shareholder — the government. It offered two options — privatisation or a complete overhaul of bank governance. The latter is envisaged in the form of a gradual disassociation of the government from the operations, management and governance of PSBs. This would unfold over a three-stage process to ensure that the boards of public sector banks are independently and professionally managed so as to generate returns to reduce claims on the exchequer. Once the boards of public sector banks are reconstituted on professional lines, in later stages, the committee envisaged that the BIC owner would transform from an owner to an investor whose primary responsibility would be to protect the government's financial investment in the banks by raising the returns to the government. The BIC is, therefore, a welcome step in as much as it signals the government's intent to pursue reforms to improve the governance and performance of PSBs.

However, the details will matter. The ownership and governance of the BIC itself will be crucial — it will need to be allowed to garner the requisite talent and expertise, and operate with freedom. In the absence of this, it would merely add another layer while preserving the status quo. The less than encouraging experience of the Banks Board Bureau (BBB) that was to precede the BIC is instructive. The BBB was set up in 2016 to advise on the selection and appointment of senior board members and management, avoid vacancies by helping with the planning of appointments ahead as also advice the PSBs on strategies for business and raising capital. However, in practice, the BBB's advice has not always been heeded to, and appointments have not always been made on time. The BBB, as originally conceived, was to consist of three senior bankers.

However, it was expanded to include representatives from the RBI and the government.

The government would need to ensure the necessary freedom for the BIC to operate while circumscribing its own role. The ultimate success of these reforms will depend on how the government disassociates itself and empowers the BIC, the boards and the banks to function independently — from selection of talent to strategic decision making. The Nayak committee had suggested a shareholders' agreement between the BIC and the government that would detail out and formalise this freedom.

The BBB was also originally envisaged by the committee as a temporary arrangement for advising on board appointments before it would be subsumed by the BIC. However, no further steps have been forthcoming after its establishment. A clear time-bound roadmap would, therefore, send an encouraging signal.

The objectives of the BIC would have to be clearly defined too. If capital raising is one of the goals, the structure of a holding company — with a portfolio of comparatively better performing and non-performing banks — to attract investments must be assessed. In this regard, the RBI has reportedly, in the past, expressed reservations on the BIC structure being a potential challenge for investors to assess the relative risks, returns and performance of the banks. This raises the question of whether privatisation would not be a better alternative, particularly as the transition of the government from an owner to a pure financial investor in its banks is likely to take time.

It would be imperative to carefully address such concerns and questions to ensure the success of restructuring the government's ownership and influence in PSBs envisaged through the BIC. Given these concerns, privatisation may be a better alternative. The budget could signal this intent by announcing the first step — the repeal of the Bank Nationalisation Acts and the State Bank of India Act.

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