



ALL INDIA BANK EMPLOYEES' ASSOCIATION

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**TO ALL OFFICE BEARERS, STATE FEDERATIONS
AND ALL INDIA BANKWISE ORGANISATIONS
(FOR CIRCULATION TO ALL MEMBERS)**

**52nd Anniversary of Bank Nationalisation
AIBEA's National Campaign - Webinar Lecture 12
Prof. Raja Sethu Durai, University of Hyderabad**

**Public Sectors will be with the people during hard times,
Private Banks will be there only during boom – Prof. Raja
Sethu Durai**

All India Bank Employees' Association invited Prof. Raja Sethu Durai of the Department of Economics from the University of Hyderabad to address the participants of the AIBEA's ongoing National Seminar series to commemorate the 52nd anniversary of Bank Nationalisation. Prof. Raja Sethu Durai delivered the lecture on "Future of Banking – an economic perspective".

Gist of his lecture: The Professor dealt with the topic under five major points. There are a lot of concerns because of the technological boom and whether banks would be marginalized from being financial intermediary and whether technology would overtake the role of banks. The second is that whether the technology in banks would take away the employment potential in the banks. The third part is about the Non-Performing Assets in the public sector banks. The fourth part is about monetary policy transmission. And in the last, he dealt about the future direction.

Banks as financial intermediary – He pointed out that Banks are a financial intermediary with an objective. Explaining further, he spoke of the objective of a bank. He informed that the oldest bank in the world is in Italy, started in 1472 and still in banking business called Monte Dei Paschi Di Siena. It is owned by Government of Italy. The basic objective of this oldest bank has been to extend credit to needy and poor persons and that is nothing but social banking. This particular objective still applies for any bank to exist. Social banking is sustainable banking to ensure that basic human needs to be met and then deliver financial services which meet those needs. **The basic idea is that there should be a sustainable development in the economy. It is not to make profit but to have social objective.**

Global Alliance for Banking on Values (GABV) research shows that the **sustainable banking is less volatile**. From the social point of view, India's public sector banks are sustainable banks. But, whether the practices followed in the public sector banks are transparent is a question that needs to be answered. Banks are financial intermediaries with information on risk and credit worthiness.

Banks also ensure flow of credit into the financial system. It also assimilates the information asymmetry in the credit market to the common man. The most important characteristic of a bank is the credibility and accessibility. **While technology can enhance accessibility but credibility needs strong and stable institutional backing.**

Hence, the role of financial intermediary is not diminished with technology advancement. But **social orientation and sustainable banking will definitely be the ultimate winner** as long as there are poor people and needy persons in a country.

Technology and Employment - Technological innovation affects every field but it cannot substitute a human capital. Hence, we have to embrace technology and we cannot move forward without technology. Technology enhances human capital. For example, in 1900, only 5% of married women had jobs but in 1980, it grew up to 51%. Invention of refrigerator (1918) and washing machines (1916) reduced household chores of women and enhanced the human capital in married women taking up jobs. Whether machine steal jobs? Even in USA, the ATMs installed numbers between 1970 to 2010 has gone up but there is also an equal amount of increase in employment of tellers over the same period. The technology shifts the job opportunities to the allied activities like ATM management services, cash management of ATMs. While technology cannot steal the jobs but there will be transformation. The level of employment in substaff, clerical and officers in public sector banks are more while in private sector banks, the employment of officers is more for the period from 2004-05 to 2019-20. The average growth of public sector banks has been at 3% while it was 12% in private sector banks. The average growth of ATMs between 2012-13 and 2020-21, it is 16%. Hence, it has not displaced the human capital. Hence, **technology cannot steal our jobs.**

Non-Performing Assets of the Public Sector Banks – In a private business, if the business fails, the owner is blamed. In Public Sector Banks, when NPAs are more, the owner, the Government doesn't take the responsibility but they blame others and the previous government. The first stage in a bank is to collect deposits and give advances. The second stage is to see how the advances are performing. The connection between stage one and stage two is very important. Undesirable occurrence is the Non-Performing Assets. **It becomes a burden because banks have to pay interest to the deposits but they won't have any return from the Non-Performing Assets.** In stage 1, both public sector banks and private sector banks are having efficiency of 85% and 90% respectively but in stage 2, the inefficiency creeps in, this ratio is 59% and 79% as far as efficiency is concerned. Without NPAs, the first stage is 88% and 91% while in the second stage it is 63% and 79% for public sector banks and private sector banks respectively.

Monetary Policy transmission – Central Banks play a crucial role in the economic and financial stability. Monetary policy is aimed at managing the liquidity in the system to achieve price stability and growth. An important aspect of monetary policy transmission is bank lending. RBI research paper says that the credit channel of monetary transmission was stronger in public sector banks than private banks. **During boom times, private banks are more active than the public sector banks but at the time of recession and crisis, public sector banks are more efficient and lend a helping hand than the private sector banks.**

Future Directions – Proactive Banking like Banking for global Indians will be imperative. Big data analytics are absent in Indian Public Sector Banks, which means that we need very strong research team to get an edge in the market. We are sitting on a treasure of data but not fully utilized or analysed. The third aspect is to embrace the technology. The Central Bank Digital Currency instead of paper money and transmission to digital money may be in place in future. But, the banks' business is about extending credits and hence even digital currency will not take away the regular banking activity. IT companies in India are filing patents in Fintech. **Technology comes with a cost and so to reduce cost, we have to adopt technology and improve upon the profits.** According to IPR Daily 2020, 7 of the top 10 banks in the world with patents are from China and they are all government owned.

Role of Government – The business of the government is not to run business is a myth. The second myth is that free market develops technology and innovation and the role of the government is limited to National Security, Law and Order. Because, in reality, in the book, "The Entrepreneurial State" by Mariana Mazzucato every technological innovation that "Apple" uses is developed by a governmental agency or company. The companies like Apple pay license fees and use the technology developed by the government. No private player will innovate technology for common man and with social objective and so Government should invest in these technology.

Abba Learner, a Russian-born UK economist said on the role of Government are as under:

Full employment, price stability and a decent standard of living for all are fundamental macro-economic goals and it is the responsibility of the state to promote their attainment.

Policies should be judged on their ability to achieve the goals for which they are designed and not on the dogmas on traditional economies.

Without full employment policy, society cannot benefit from labour-saving technological advance and

When there is unemployment, jobs and money, not resources and goods, are scarce.

Com. E. Arunachalam, General Secretary, Tamilnadu Bank Employees Federation thanked Prof. Raja Sethu Durai for his excellent lecture and dealing with the banking with future outlook in an educative manner. He thanked the participants, who attended in large number.

Yours comradely,



**C.H. VENKATACHALAM
GENERAL SECRETARY**