# 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 14**
**By Shri. S. Harisankar, former MD, Punjab & Sind Bank**

## Before you talk of privatization of Banks, you should think of the poor and the needy who look to the Banks – Harisankar.

**All India Bank Employees' Association** invited Shri S Harisankar, a veteran banker and former Managing Director of Punjab & Sind Bank to address the participants of the AIBEA's ongoing National Seminar series to commemorate the 52nd anniversary of Bank Nationalisation.

Shri Harisankar delivered the lecture on **"Privatisation of Public Sector Banks: Is it imperative? Have we exhausted all options? Have we tried all options?".**

He started his lecture by saying that the question of privatization of banks has been gaining currency because a section of the influential society is trying to force the government to privatise the public sector banks and unfortunately, the government is also moving in the same direction.

During his lecture, he dealt with the issues analysing the root cause, the cause-effect correlation and the various options before us.

**Gist of his lecture:**

**Root Cause Analysis I** – There are dark patches in the country, if we care to look. Migrant worker, unemployed and under-employed, small business – to them the impact of covid was huge. Thousands of migrant workers went back from the locked cities walking hundreds of miles. For them, the role of public sector remains undiminished.
Income inequality in India is appalling. It is a fact that 10% of the Country's population holds 77% of our National Wealth. One per cent of the richest in this Country have amassed 77% of the wealth generated in India in 2017. India's richest 1% held more than 4 times the wealth held by 95.3 Crore people who make up the bottom 70% of the population! Close to 5% of the population are unable to access the health care they need.

In this background, our exaltation at the barrier-breaking performance of Stock Exchange indices becomes unsound, knowing well that what we celebrate just represents investment by less than 2% of the population! When anyone says, that the Private Sector is efficient in enhancing the shareholder value what that is meant is the value for this miniscule part of the population.

**Root Cause Analysis II** - Signs of an economic slow-down had been visible even earlier even before the pandemic. Massive failure of projects in the Infrastructure sector – mainly, Roads, Ports, Power and steel resulting in loss of capital for the Private and Public sectors has been the most significant of all causes. Such a massive failure has been ascribed to the Crony Capitalism in the Country.

**Root Cause Analysis III** - A report of RBI on relationship between Savings, Investment and Economic growth in India states: "from a low of 21.6 per cent in 1991-92, India's domestic saving rate jumped to a record high of 37.7 per cent in 2007-08. This fueled investment, raising the demand for all types of investment related goods. This, in turn, had a multiplier effect on economic growth". Household debt to GDP has been rising steadily, which means Indian households are saving less and their leveraged expenditure is rising. Household savings, which is considered as the most stable source of domestic savings also suffered a deceleration during the said period. Household savings, which is considered as the most stable source of domestic savings also suffered a deceleration during the said period.

The economy is facing multitude of problems. Some of the problems have their origin in the past and some are the fallout of the Pandemic while some are due to faulty policies initiated now. The Debt to GDP ratio was 58.73% during the FY 2020-21 and the previous worst was 58.86% during 2007-08, 14 years back.

The argument of disinvestment by the Government is built around this logic.

The Government of India have infused Rs.350,000 Crore for Recapitalization of Public Sector Banks since 2015-16. What is the impact of this infusion? All Public Sector Banks have reported healthy Capital Adequacy Ratios as on 31-03-2021.

**Root Cause Analysis IV** - Consequent to the Asset Quality Review carried out by RBI, some of the exposures hitherto treated as standard assets by Banks were made Non-Performing ones. These were mostly accounts in the sectors such as Steel, Power, Ports and Roads. We have discussed earlier the broad underlying reasons, which hit those sectors and turned the exposures taken by Banks non-performing.

It was the Public Sector Banks, which took up bulk of the infrastructure lending. Presence of the Private Sector Banks was much limited. PSBs took the risk because investment in infrastructure was futuristic and much in need for our Nation's development. It was the only option to put the economy to a higher mode and sustainable growth. Infrastructure exposure of PSBs as on 31-03-2021 collated from the major PSBs work out to approximately 15-16% of the total advances. It stood at a much higher level at the beginning of the growth phase, about 10 years back.

As on March 31-2019 the NPAs in these sectors for PSBs was Rs.739,541 Crore representing 11.60% of the NPAs, while the same for New Generation Private Sector Banks was Rs.183,604 Crore (5.30%).

**Cause-Effect Correlation** - We have a long history of failed resolution processes and protracted recovery measures not yielding results commensurate with the money that has been stuck in bad assets and the time-lag for culminating in recovery. It starts with the legal measures of recovery through the Courts, paving way to specialized resolution platform like the BIFR (since 1987) for sick industries and SARFAESI Act 2002 with all its series of modifications finally reaching the IBC process (IBC Code 2016).

In spite of such a robust legal frame-work, the Banking system is carrying a gross NPA of approximately Rs.10 lac Crore. The Insolvency and Bankruptcy Code that was enacted in 2016 was expected to smoothen out the process considerably and result in a robust resolution framework. However, after 5 years of promulgation of the Code, we are not better off than before.

**The Rural India needs bank branches – in brick-and-mortar form**. When a public sector bank opens a branch in a rural centre, profit is not the driving motive, but it is service to the rural population. Public Sector Banks in India cover these areas with a collective network of around 30,000 branches constituting ~30% of their branch network covering all such areas. It is doubtful whether this is substitutable at all.

We have often seen an anti-campaign against disinvestment of Government stake holding in Public Sector Banks. It is to be seen that there is a huge difference between Privatization and disinvestment. There has been a lot of loud thinking as to what is the appropriate shareholding of the Government of India in a Public Sector Bank to retain its PSU character. The ratios suggested have ranged from as low as 26% or a mid-path of 33% up to what is arithmetically accurate at 51%.

**Regulatory Option 1** - Though at present the CRAR of the Public Sector Banks is within the regulatory range, we need to be wary about the stress that is building up in the system due to the Covid Pandemic. Probability of Default (PD) is high, which in turn is likely to heighten the build-up of NPAs necessitating higher provisioning requirement and more strain on the Operating Profit of Banks. Provisioning strain is also likely to be higher on account of rating impairment of corporates.

Prior to the Consolidation that has happened in the Banking Industry since 2016 we had 21 banks in the Public Sector. If we recall out of the 9 banks that got merged most of them could have operated as Domestically Active Banks and continued their operation under the sphere of Public Sector Banks without having to be governed under the Basel III norms. Consolidation of these banks with some other PSBs has not saved the Government of the requirement of Recapitalization. In fact, there was a major recapitalization drive immediately after announcement of the decision of merger of Banks.

In 2017 the Ministry of Finance, while considering capital infusion had directed each Public Sector Bank to define it's business profile for future and specify action plan accordingly. That was one clear direction for PSBs to move away from aspiring for Global reach, redefine their niche and propose business strategy and plan for capital accordingly. It was only a logical follow through for the Government and the Regulator to bring in differentiated Capital Regimes for Banks with the domestically active banks to be put under Basel II regime and the Internationally active Banks to be brought under Basel III regime. This is an option that was available to us but not explored.

It should have been possible for our Country to design a compliance regime, which was robust enough to contain risk of possible failure but less stringent than the Basel III norms for those Banks, which were not active internationally.

**Regulatory Option II** - Much has been discussed about frauds in the Banking Sector. The statement should be read as frauds committed on the Banking Sector. To guard itself against such losses is the incumbent duty and paramount responsibility of all bankers. Once a fraud has been identified and reported Banks are required to make 100% provision on those exposures treating them as loss events (after adjusting against the available financial collaterals eligible as per Basel III norms).

There is a highly justifiable case for the regulator to make the provisioning norms on frauds more realistic rather than making it so overwhelming.

**Structural Options** - The P.J.Nayak Committee set up by RBI in 2014 to review Governance of the Boards of Banks in India had come up with a number of suggestions. Some of the recommendations have been acted upon, the most significant of those being, splitting of the position of Chairman and Managing Director of Banks into two as Non- Executive Chairman and MD & CEO. This has been done with a view to avoid concentration of power and authority in one individual and make possible better overseeing by the Boards.

**Option I** - Bank Boards Bureau has been set up for advising on appointment of whole time directors in Public Sector Banks.

**Option II** - One significant recommendation of the Committee was about setting up a Bank Investment Company to hold equity stakes in Banks, which are now held by the Government of India. Taking a different route from the Nayak Committee recommendation, we must consider it prudent to set up BIC as the core Investment Company with a mandate to hold 51% of the Government of India's stake holding.

**Governance**

**Option I** - Constitution of the Board of Directors of Public Sector Banks assumes utmost significance. Appointment of Independent Directors to the Board of Public Sector Banks assumes much significance in the suggested context.

The Nayak Committee had recommended that the Government should consider reducing its holding in PSBs to less than 50%. We have to understand that such a move will be counter-productive to the development agenda in Banking and will be leaving the door ajar for acquisition of Banks by the vested interests. Hence it is voiced in unequivocal terms that stake-holding of the Government in Public Sector Banks should not be reduced to less than 51%. It is also re-iterated that BIC is to be the nominated agency to hold the 51% stake of the Government of India and shall be statutorily governed in doing so by an Act of the Parliament.

**Option II** - There is a host of recommendations about deepening the Board Agenda and improving Corporate Governance, which should be adopted for enhancing the efficiency of functioning of Public Sector Banks.

**Option III -** Constitution of the Bank Investment Company itself has to follow the highest standards. Board of Directors of BIC should be constituted with people of the highest professional caliber and integrity. Independence of the Board of Directors has to be ensured.

**Operational** - Can Public Sector Banks vacate the space of Branch Banking? If we do a transaction-based analysis and start crunching numbers for profit, a purely commercial view may emerge that branch rationalization is required. But, if PSBs vacate that space, who is going to provide the services, which are being extended through branches? Will digitization be the answer? It is hugely doubtful. Even Business Correspondents may not be an answer for substitution, but they can effectively act as enablers and enhancers of last-mile service delivery by increasing penetration.

**Consortium Lending** - The present Consortium Lending doesn't envisage an avenue for a bank, that has sufficient liquidity to lend for a particular project by way of Project funding and/or working capital requirements but doesn't have internal expertise to do the credit appraisal and/or have an internal robust system of credit monitoring.

**Setting up of a Bad Bank** - After much protracted discussions, finally we are setting up a Bad Bank and IBA has been entrusted with the task. The National Asset Reconstruction Company is finally is in the offing. This is a major structural change in the recovery machinery of Banks. While there can be debate over its constitution, capital structure and what kind of bad assets qualify for being transferred from Banks' balance sheet to the NARCL, there is no doubt that the Banking system will have a much-needed supervisory bandwidth for managing bad assets and effecting recovery.

**Frontline Sales** - One of the areas where performance of Public Sector Banks fades out is the efficiency of frontline sales. Upselling banking products to existing customers should be treated as part and parcel of the job definition right from the front desk. If Public Sector Banks fail in raising this demand from its branches and frontline, it will be a costly omission.

**Loan Collection** - As Banks become more conscious about risk mitigation, new functional areas have been introduced in Loan related departments. Credit Monitoring is treated as a very important function in asset quality maintenance. Credit collection is an area where public sector banks are still very weak. PSBs have not created such an outbound function for their workforce.

**Widening Revenue System** - By limiting ourselves to traditional income-streams such as Interest, Exchange and Commission we are not helping ourselves to enhance profitability. Public Sector Banks, in order to have cutting edge in the market, should be able to adapt to the market-driven evolutions.

**Customer Grievance Redressal** - Having a robust grievance redressing mechanism, an escalation matrix and a tracking mode are absolutely essential for inspiring customer confidence.

## Conclusion :–

With the social objective in view, **we should not privatise the Public Sector Banks and the socio-economic position of the country and its large number of people in absolute poverty, the presence of Public Sector Banks is required.**

**As a nation, we should not Privatise the Public Sector Banks.**

Com. S K Sangtani, General Secretary of Canara Bank Workmen Employees Union, who coordinated the webinar, thanked the Chief Guest and proposed the vote of thanks.

Yours comradely,

**C.H. VENKATACHALAM**
**GENERAL SECRETARY**

**Observe Bank Nationalisation Day on 19th July, 2021**