Across the aisle: What happened to Indradhanush?

Are public sector banks (PSBs) wanted or not wanted? The answer seems to depend on the day of the week.
Since nationalisation of major banks, the contributions of PSBs have been widely acknowledged.

PSBs led the drive towards opening more bank branches, especially in rural areas. Today, there are 116,394 branches of all banks, of which 33,864 are in rural areas.

PSBs expanded agricultural credit. Short term agricultural credit ('crop loans') in 2017-18 will amount to Rs 622,685 crore.

#PSBs pioneered the concept of priority sector lending. Otherwise, many sectors would have been deprived of bank credit. Differential Rate of Interest (DRI) loans to the very poor was a plan implemented by PSBs.

#PSBs extended loans to women's self-help groups. PSBs gave education loans. Last reported outstanding amounts under the two categories were Rs 61,600 crore and Rs 70,400 crore respectively.

PSBs funded rural infrastructure through the Rural Infrastructure Development Fund.

#PSBs pioneered financial inclusion. When the UPA demitted office, there were 24.3 crore 'no frills' new accounts. The NDA claims 31.11 crore Jan Dhan accounts have been opened.

Not Black & White

India's policy on the banking sector has evolved over the years. From a sole PSB (State Bank of India) to bank nationalisation to competition (PSBs, private banks and foreign banks) to diluting the government's holding to not less than 55 per cent to licensing more private sector banks to privatising a PSB (UTI Bank was converted to Axis Bank), banking policy has run a full course.

In comparison to private banks, PSBs fall short on many financial ratios, market capitalisation, and management competence. Yet, there is a widely held view, especially among the middle classes and the poor — not without justification — that PSBs must be nurtured. Several straw polls have revealed that the majority opinion is against privatising PSBs.

The scandal involving the Punjab National Bank (PNB) has revived the demand for privatisation as part of comprehensive banking sector reforms. As a general proposition, a scam has nothing to do with ownership. Much larger bank scams have occurred in private banks in many countries. In the last ten years alone, private banks such as Lehman Brothers, Royal Bank of Scotland and Merrill Lynch have collapsed due to scandals.

Regulatory Failure

PSBs in India have multiple layers of supervision. It starts with the Board of Directors. Then there are the RBI (the regulator-cum-supervisor), the Department of Financial Services and the NDA government's creation called Bank Board Bureau. The All India Bank Officers' Association has pointed out that a PSB branch is "subject to seven audits — internal audit, concurrent audit, snap audit, recovery audit, statutory audit, external audit and stock audit".

Among the auditors are the firms empanelled by the C&AG and the Big Four firms of chartered

accountants!
It would be incorrect to say that the troubles of PSBs began with the NDA government, but it is fair to ask what has the NDA government done, since 2014, to improve governance of banks.

Soon after assuming office, the NDA government separated the offices of Chairperson and Managing Director of a PSB. It made arbitrary and whimsical transfers among the chairpersons. It changed the rules and appointed two outsiders as Managing Directors of two important PSBs. Within days, it changed the rules again, and reverted to the old rule of promoting Executive Directors as Managing Directors!

In 2015, amidst great fanfare, the government announced the Indradhanush plan to reform PSBs. In true BJP-style, the reforms were listed in a nice alphabetical order: A for Appointments; B for Bank Board Bureau and so on up to G for Governance Reforms.

Mr S S Mundra retired as deputy governor, RBI, in July 2017. He was in charge of the Department of Banking Supervision. The post, by convention held by a banker, remains vacant till date!

Clueless and Helpless

The government fussed over recapitalisation of banks and declared that it would give funds only to those banks that undertook reforms. The Punjab National Bank was given Rs 4,714 crore since 2014-15 and was promised Rs 5,473 crore more! No one will answer the question how it qualified for recapitalisation money.

On the question what has the present government done to reform PSBs, the evidence says, precious little. Here are three pieces of evidence:

1. The massive fraud in PNB, and perhaps in other banks too, indicates that little has changed in the systems of PSBs.

2. After Indradhanush the government got into the habit of announcing reforms that were nothing more than attractive slogans and acronyms. So, we have EASE (Enhanced Access and Service Excellence) and a ‘Seven-pronged Approach’. No one knows if Indradhanush was fired at all or it misfired!

3. In the light of the PNB fraud, all that the Finance Minister could tell the country (after several days of silence) was that he was anguished over the “lack of ethics” among bankers and auditors and promised to punish the perpetrators so that such “stray cases” do not occur again. Stray cases? It is evident that the government has run out of ideas — and acronyms too.

A reform is a plan that is conceived, well-designed and implemented with a clear focus on the intended outcomes. It will take time, say five years, which is why the term of a government is five years. The last four years were wasted and the fifth too is likely to be wasted.

END