

GOVT ALLOWS PRIVATE SECTOR BANKS TO PARTICIPATE IN ALL GOVT BUSINESSES

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

Mumbai: The government has lifted the embargo on the grant of government business to [private sector banks](#), in a move to enable better efficiency and competition. With the lifting of the embargo, private banks will be able to conduct government-related banking transactions such as taxes and other revenue payment facilities, pension payments and small savings schemes.

"Embargo lifted on grant of Govt business to private banks. All banks can now participate. Private banks can now be equal partners in development of the Indian economy, furthering Govt's social sector initiatives, and enhancing customer convenience," tweeted Finance Minister [Nirmala Sitharaman](#).

The government also added that the [Reserve bank of India](#) could also, in due course, authorize private sector banks to undertake government businesses.

At present only state owned banks and large private sector banks are eligible to conduct government businesses. This includes collecting revenues and disbursing payments under various government schemes. While other private sector banks are allowed to open collection accounts for government departments, they were not allowed to do any cash management business, which formed a large chunk of the government business.

Reacting to the announcement, Kotak Mahindra Bank's chief executive officer Uday Kotak tweeted "it will enable the banking sector to serve customers better. Private and public sector must both work towards sustainable development of India."

In 2012 RBI had allowed private sector banks to handle central and state government business. However this was reversed in September 2012 after the government decided to postpone "liberalisation" of government business in favour of private sector banks" for a period of 3 years. In a communication dated April 2015, the government said it will continue with the embargo until RBI conducted a complete review of the functioning of the private banks. However RBI had objected to this saying that postponing the dispensation would not be appropriate in the context of equity, fair play and convenience for banks.

"Earlier other private sector banks had to go through PSU banks or large private sector banks for even servicing our customers for tax collections. Government departments used to discriminate against the smaller private banks on the basis of having an extensive branch network requirement. Now that is not relevant as many aspects of government are becoming tech centric where smaller banks can play to their strengths," said a senior banker with a small private sector bank.

The announcement will help small private sector banks make money on the float that comes from government accounts and schemes. The 'float' is a term used to refer to the money held by the banking system between the time when a transfer is made into a depositor's account, till that money is withdrawn.

Analysts said that this will help boost revenues for private banks.

"The float and fee income that can be garnered on tax collections (Rs11tn budgeted for FY22),

duties, GST collections (Rs11tn), payment facilities, state/central level pension plans (Rs2tn), small savings schemes (Rs13tn) etc can add significant delta to revenues," said ICICI Securities in its report

"The review of lifting the embargo on private sector banks is incrementally and directionally positive for the private banking industry - now gives them a level playing field to all private banks to compete for the government business," the report added.

SBI currently earns 1.2% of the total revenue from commission on government business, while Canara bank and PNB earn 0.2% of their revenue from commissions.

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