

PSU banks: Past imperfect, present tense, future uncertain

Finance minister Arun Jaitley's big-bang Rs2.11 trillion PSU bank recapitalisation announcement has led to a string of debates, discussions and unending speculation on the future of Indian banking.

Banking sector analysts, the bankers themselves and the economists are looking for answers to many questions. Will this money be enough to meet the capital needs of public sector banks, keeping in mind the requirement of Basel III norms which will be in place in 2019? How much of this fund infusion is growth capital? Will the banks be able to raise money from the market sans the support of Life Insurance Corporation of India, the proverbial investor of the last resort of any divestment of the government stake?

Or, for that matter, what will be the contour of the recapitalisation bonds worth Rs1.35 trillion? Will the government float it or a special purpose vehicle to do the job? What will be the impact of such bonds on India's fiscal deficit?

Finally, after recapitalisation, what? Will we see the government pushing the agenda for consolidation in public sector banks aggressively to follow up bank recapitalisation?

It may not be a bad idea to seek answers to some of the critical questions, which all of us want to know but don't dare to ask, through an imaginary quiz. And, for quizzing, can there be a better platform than Amitabh Bachchan-hosted *Kaun Banega Crorepati* or KBC, the Indianised version of famed British television programme *Who Want to Be a Millionaire*?

The rules for this show are very similar to that of KBC. On the hot seat is a retired public sector banker. He has three lifelines—phone a friend (he can call a friend for help to answer a question he cannot answer), 50:50 (two of the four options for an answer will be removed) and audience poll. (It has been very difficult to get a working banker as all of them are scared of the three Cs—CBI, CAG and CVC—and don't want to forgo their retirement benefits for being candid.)

The game starts now:

AB: Here's my first question: Who is responsible for the current mess?

The options are: (a) The government (because of its frequent interference); (b) The economy (banking is nothing but a proxy for economy and if the economy is not growing to its potential, banks cannot grow); (c) Inefficiency of public sector banks; (d) Rogue companies who siphon off money.

The Banker: (Thinks for a minute or so, and then, say) I would like to phone a friend.

AB: Come on, 'phone a friend' for the very first question? Well, who do you want to come your rescue?

The Banker: The former boss of a very large financial institution (FI).

AB: Okay, Computer *ji*, call this gentleman.

(The former FI boss comes on the phone)

AB: Sir, your friend is sitting on the hot seat with me. He wants to know who is responsible for the

current mess in Indian public sector banks.

FI Boss: The decision to kill the financial institutions and make commercial banks universal banks, overnight.

AB: Can you please explain a bit?

FI Boss: Of course. The Reserve Bank of India in the late 1990s and early this century encouraged all banks to become universal banks—a one-stop shop for all financial projects—and buried the financial institutions which were into project financing. Do the banks know what is project financing? No, they have been into working capital financing. As universal banks, they started financing long-term projects with short-term money (average maturity of deposits is far lower than the gestation period of most projects) and they have no knowledge of project appraisal and risk management.

AB: Tell us more...

FI Boss: SBI Caps has been appraising most projects as the banks do not have any idea in this field but you cannot expect the merchant banking arm of State Bank of India to know everything in this space. How much can the lender's engineers do?

AB: What does a lender's engineer do?

FI Boss: A representative of a bank who audits a project from the technical stand point with the objective of identifying, mitigating and hedging the lending institution's risks.

AB: Okay; it's clear now.

AB: The next question. What's after the recapitalisation of banks? How do we prevent the recurrence of rise in bad debts?

Here are four options: (a) Privatisation of PSU banks; (b) Setting up of Banks Investment Company, following the recommendations of the PJ Nayak Committee; (c) Bank consolidation; (d) Restructuring the boards of PSU banks for better governance.

The Banker: (Thinks awhile and says) I will go for 50:50.

AB: Okay, Computer *mahashai*, remove two options.

Two options—B and D—are removed from the screen and two, A and C, remain.

The Banker: (Thinks little longer and says) I'm a bit confused. I want to take the audience poll.

AB: Okay, Mr Banker, you seem to be very nervous from the beginning. Come on, you are a retired banker, you have nothing to lose... Come on, tell the truth.

Anyway, audience, please get ready to answer; put your finger on the voting machine...

Your time starts now.

The graphs on the screen go up and down, accompanied by suspense music and then suddenly the music stops and the graphs show the answer. The audience is vertically divided between A and C—privatisation and consolidation as the panacea!

AB: Now, Banker *mahashai*, there's no escape for you. Please answer...

The Banker: Well, I don't know the right answer, but I know privatisation is not the answer.

AB: Why do you say so? To protect the jobs of your colleagues?

The Banker: No. The government owns the banks, because in a democracy, the system can be used to do a lot of things for the masses, you know. How will the government's projects for the people work? Do you know out of 30.5 crore Jan Dhan accounts, 29.52 crore have been opened by public sector banks and regional rural banks? Will the private banks ever do it this way? Will the government be able to announce farm loan waivers so frequently if the 70% of the banking system is not owned by it? Can the politicians be on the boards of private banks? Privatisation? No way.

AB: So, consolidation is the way forward?

The Banker: I am not saying this. May be 'Vichar Manthan' will throw up some light on this...

AB: What's this?

The Banker: Now, I am appalled at your ignorance. The finance ministry is holding 'Vichar Manthan' in Delhi later this week with senior bankers to explore the path ahead. There will be different groups, brainstorming different critical issues.

Don't you remember 'Gyan Sangam'? It's Version 2 of that. Now, let me go.

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