

GOVERNANCE KEY CONCERN FOR PSBS: DAS

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

Reserve Bank of India (RBI) Governor Shaktikanta Das on Saturday said corporate governance remained the central concern of public sector banks, the lack of which was responsible for problems such as high bad loans, capital shortfalls and frauds.

Speaking at the first Annual Economics Conference of Amrut Mody School of Management, Ahmedabad University, Mr. Das termed corporate governance in public sector banks 'the elephant in the room' and said, "The role of independent boards in fostering a compliance culture by establishing the proper systems of control, audit and distinct reporting of business and risk management has been found wanting in some PSBs, leading to build-up of NPAs."

On the issue of merger of PSBs, he cautioned that the process needed to be executed without any disruption.

"I must, however, hasten to add that the merger process has to be executed without creating any disruption in the normal functioning of these banks," he said.

The government had earlier announced the merger of 10 public sector banks into four, and the process is expected to be completed by March 2020.

The RBI Governor said governance issues in private sector banks originated from an altogether different set of concerns, which were mainly related to the incentive structure of their managements, quality of audits and compliance, and functioning of audit and risk management committees.

'IBC a game changer'

On resolution of stressed assets, Mr. Das said despite delays in resolution in the bankruptcy process, the Insolvency and Bankruptcy Code, 2016 had been a game changer.

"I am optimistic that these are teething problems in a new law. The real impact of the IBC is to be seen in fresh cases where I expect the law to provide an efficient avenue to effect a resolution.," he said. In this context, he said various efforts towards resolution of stressed assets had resulted in non-performing assets (NPAs) of the banking system declining for the first time in March 2019 after a gap of seven years.

"Fresh slippages declined and the system-level provision coverage ratio jumped to 60.5% from 48.3% a year ago," he said, adding that the capital adequacy ratio of the banking system had increased to 14.3%, much higher than the Basel norms, which was also due to recapitalisation of PSBs to the tune of Rs. 2.9 lakh crore in the recent period.

The RBI Governor also highlighted the steps taken over the years leading to the digital payments-to-GDP ratio rising to 8.6% at end-March 2019, from 6.7% at end-March 2016.

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