Addressing Administrative Failures in PSBs

What is the issue?

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- Various incidents in India proves that public sector banking has lack of transparency and accountability.
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- Government needs to take firm administrative reforms to address such issues.
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What are the recent issues with PSBs?

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- PSBs need equity capital of Rs 2.4 lakh crore (Rs 2.4 trillion) by 2018 to meet Basel III norms.
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- The top 30 bad loans account for Rs 87,368 crore (Rs 873.68 billion) ie 35.9 per cent of total Gross NPAs of PSBs.
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- To the collective dismay of the public recent bank scam which involves a public sector bank (PSB) Punjab National Bank is an example. Click here to know more about the scam
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- The convictions have the scam allegedly pulled off a daring heist of over Rs 110 billion and fled to the US proving the ignorance of PSBs.
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- Recently State Bank of India, the premier public sector bank, confessed to over-reporting its profits by 36 per cent and under-reporting bad loans by Rs 232.39 billion or 21 per cent.
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What are the reason behind such issues?

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- The apex bank has lack of mechanism to enhance the transparency in PSBs and bank top management and other auditors are usually helping the violators.
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- The bank’s systems were flawed with responsibility and accountability issues.
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- Union government has taken various measures like Indradhanush project and Banks Boards Bureau to address such issues but without changing the ownership and control of banks.
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- It keeps the ownership and control the same and expect changes in systems and top-level staff to deliver a clean, efficient organisation, this involves too many assumptions.
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- Which leads to corruption, meddling politicians, crony capitalism, regulatory failure and repeated ‘recapitalisation’.
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- Thus PSBs are in a perpetual mess because of the way they are owned and controlled.
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What measures needs to be taken?

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- To improve the outcome of time, money, and effort simple measures on every issue and every timeframe needs to be taken instead of a generic solution.
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- If the policymakers were to apply this in the case of PSBs, it would reduce bad loans, improve efficiency, and prevent scams.
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- Government need to change the ownership of PSBs and pass on the responsibility to the new Private owners to fix the problems and face the consequences.
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- There is less inefficiency and corruption in private banks because there is inherent accountability.

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- If there is a scam in private sector banks, it is shareholders alone who suffer and, to a limited extent, depositors, but in PSBs public money is wasted and nation’s economy is hindered.
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Source: Business Standard

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