Considering Privatisation of Public Banks

What is the issue?

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The multiple frauds that have been unearthed recently have reopened the debate on privatising Public Sector Banks (PSBs).

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What have been the contributions of the PSBs?

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- Since nationalisation of major banks in 1970s, the contributions of PSBs have been widely acknowledged.
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- PSBs led the drive towards opening more bank branches, particularly in hitherto unbanked and rural areas.
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- PSBs expanded agricultural credit, short term agricultural credit (‘crop loans’), both of which in 2017-18 is projected to total Rs 622,685 crores.
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- Notably, PSBs pioneered the concept of ‘priority sector lending’, which opened up many sectors deprived of banking credit to access loans.
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- Differential Rate of Interest (DRI) loans to the very poor was also the brainchild of public sector banking.
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- PSBs extended loans to women’s self-help groups that totalled to Rs. 61,600 crores per annum, which is significant for women empowerment.
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- Liberal education loans are another category of importance, for which as much as Rs. 70,400 crores have been issued by PSBs annually.
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- PSBs funded rural infrastructure through the Rural Infrastructure Development Fund and pioneered financial inclusion.
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How has the banking policy evolved over the years?

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- From a sole PSB (State Bank of India) in the 1950s to bank nationalisation in the 1970s to open competition in the post liberalisation era, Indian banking has come a full cycle.
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- Notably, diluting the government's holding to not less than 55% to completely privatising PSBs (UTI Bank was converted to Axis Bank), have also been done.
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- In comparison to private banks, PSBs fall short on many financial ratios, market capitalisation, and management competence.
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- Yet, there is a widely held view, especially among the middle classes and the poor that PSBs must be nurtured, a notion that indeed holds logic.
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Will privatisation help in addressing the banking crisis?

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- The scandal involving the Punjab National Bank (PNB) has revived the demand for privatisation as part of comprehensive banking sector reforms.
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- As a general proposition, a scam has nothing to do with ownership and much larger bank scams have occurred in private banks in many countries.
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- In the last ten years alone, private banks such as Lehman Brothers, Royal Bank of Scotland and Merrill Lynch have collapsed due to scandals.
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- PSBs in India have multiple layers of supervision like - Board of Directors, RBI (regulator-cum-Supervisor), and department of financial services.
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- Also, the recently created "Bank Board Bureau" has also joined the fray.
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- Also, a PSB branch is "subject to seven audits namely - internal, concurrent, snap, recovery, statutory, external and stock audit.
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What has the current government done?

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- Soon after assuming office, the NDA government separated the offices of Chairperson and MD of a PSB.
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- Arbitrary and whimsical transfers among the chairpersons, new rules were made and two outsiders were also appointed as MDs of important PSBs.
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- These were subsequently changed in a short time and the old practice of promoting Executive Directors as Managing Directors was restored.
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- In 2015, amidst great fanfare, the government announced the "Indradhanush" plan to reform PSBs.
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- Notably, post of the chief of the "Department of Banking Supervision" has been lying vacant for almost six months now.
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How does the future look?

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- The government fussed over recapitalisation of banks and declared that it would give funds only to those banks that undertook reforms.
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- But Punjab National Bank was given Rs 4,714 crores since 2014-15 and was promised Rs 5,473 crores more, which seems inexplicable.
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- The massive fraud in PNB and perhaps in other banks too, indicates that little has changed in the systems of PSBs.
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- Other banking schemes like - EASE (Enhanced Access and Service Excellence) and 'Seven-pronged Approach', were nothing more than mere acronyms.
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- A reform is a plan that is conceived, well-designed and implemented with a clear focus on the intended outcomes.
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- While 4 years of the current government's tenure has lapsed with little progress, announcing big ticket reforms now won't be impactful.
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Source: Indian Express

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