

Q) There are a number of reasons for the government to implement wider governance reforms in Public Sector banks. Examine?

Indian Public Sector banks have number of problems like Bad loans, frequent Federal bailouts, and poor underwriting skills. Now the Country described as "So dangerous for Banking". Not a single Indian bank features in global list of systematically important banks is underlined the banking issues in India.

Major issues in Banking Sector

* Losses in rural branches and large Over dues makes our banks more pressure on financial stability

Competition from Non Banking Financial Institutions

NBFI's under less regulation of RBI than they provide banking services with attractive offers,

Advancement of Primary Sector vs Banking Sector stability

Public sector banks in rural areas provide loans mainly for the development of primary sector, ~~the~~ ^{but recent} farmer's suicides not only create a social dilemma but also financial burden to banks also.

Measures taken by Government and RBI for smooth functioning of public sector banks

- * PSB's now allowed to appoint Chief Risk Officers to pay market linked compensation
- * Board will have flexibility to prescribe residual service of two years for appointment of senior managers.
- * Government also provide long tenures for Directors on board's Management Committee.

*) Recently Shaktikanta Das (RBI Governor) said that Central bank should focus on governance reforms in banking space to improve transparency and accountability.
eg:- Bank Merging (According to M. Narasimham Committee way forward)

Government, the bank board Bureau and Reserve bank are engaged in developing an objective framework for smooth performance of public sector banks. Currently the Regulation of Centre through Banking Companies Act 1970, SBI Act 1955, Banking Nationalisation Act 1980 is not meet the current issues regulation. In 2014 P.J. Nayak Committee for banking sector governance reforms is a welcoming step but the implementations of the road map is not yet achieved.