Though the government policies towards PSB addressed some legacy issues, several fundamental issues remains to be tackled. Discuss. ①

Public sector Banks are the backbone of Indian economy. Government has taken several steps to improve its NPA problem, arrest the liquidity crisis in the backdrop of ailing economy - Project INDRADHANUSH, IBC act, PROJECT SASHAKT, recapitalisation, mergers etc, However, the legacy issues still bog down on banking system with fundamental flaws to be tackled.

CORRECTING THE FUNDAMENTALS

The recent RBI annual report 2019 has reasoned that reduction in bank spread / profitability is disallowing the reforms to get fully implementing.

1) Banking autonomy:-

Political appointments in bank director postings reshaping the bank functions. Bank Board Bureau merely acts as a paper tiger, does not have a final say. Lack of able administration steers banks to reckless loan sanctions with political backup.

2) Absent risk infrastructure:-

Unlike private banks, which has separate risk analysis department, public sector banking does a centralised operation. There is no clear framework for pre, post risk mitigation, that was citied as major reason for burgeoning NPA's in PSB's over private banking.

3) Creditworthiness of loan takers:-

Loan extension, sanctioning do not strictly adhere to risk weighing of assets, on fear of provisioning that reduces profits. Thus banks simply resort to restructuring on account of economic, social status factor, only to infuse growth

example:- Manifestation of such a system is the outbreak of IL&FS crisis, where banks are primary lenders

Lack of an Asset Quality review results in loan mispricing

4) Mismanagement in tracking loan usage:-

Once the amount has been sanctioned, periodic review of borrower activity is neglected. This gives a leeway for investors, borrowers to divert for earning their profits.

example: The one with Kingfisher group of companies.

5) Digital infrastructure:-

Digital penetration is lower in banking. Credibility reduced due to coherent database deadlocks. All banks are not recorded in CORE, SWIFT mechanisms. PNB bank fraud arose because of digital loopholes.

6) Problem of demand:-

Current sluggish take off in banks is primarily due to lack of demand, where incomes aren't rising. Longterm savings have reduced from the past. Priority sector lendings have not infused capital yet

Several structural reformation, confidence building is thus need of the hour for ailing banking sector, that acts as vehicle of growth. Some of the probable reforms include

(i) Setting up of Risk Professionals
(ii) Autonomy to Bank Board Bureau
(iii) Public Credit Registry as recommended by YMDeosthalee committee.
(iv) Digital literacy spread to prevent frauds.

Thus, arresting current crisis requires robust management, security, administrative reforms alongside liquidity infusion, that has been plaguing since 2009-10 credit industry boom.