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PSBs need to look at inducting financial firms as strategic investors

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PTI

Worth studying Chinese experience on this front, says RBI Governor

New Delhi, Jan 30:

India needs to examine the feasibility of inducting 'skilled financial firms' as strategic investors with say 10 or 15 per cent stake in public sector banks (PSBs), RBI Governor Raghuram Rajan has said.

The experience of countries like China who inducted such investors is worth studying, Rajan said in his C.D.Deshmukh lecture in the capital on Friday.

Having strategic investors holding say 10-15 per cent stake in PSBs could drive governance in the PSBs and help them deal with their current problems.

Experts Take

Many experts reckon that existing bank nationalisation law may have to be amended if the intent is to allow "non-resident strategic investors" with 10 per cent or 15 per cent stake in PSBs.

This is because the non-resident shareholding in PSBs is currently capped at 20 per cent by law.

S.N.Ananthasubramanian, an advisor to public sector banks, told Business Line that many such "trial balloons" have been floated in the past with no credible steps.

"Unlike private sector banks, the 20 percent limit of non-resident holding forms part of bank nationalisation Act and this calls for an amendment (if non-resident strategic investors are to be allowed to take say 10 or 15 per cent stake in PSBs)", he said..

This type of amendment is a long way off, he said.

Bank Mergers

Rajan said in his lecture that talking of bank mergers, which take a lot of management attention, is probably premature.

This is especially so when each bank management is preoccupied with dealing with stressed assets, he said.

As bank health recovers, the issue of PSB mergers can be addressed, Rajan said.

Undervalued Assets

Rajan said that RBI is also working on identifying currently “non-recognizable capital” that is already on bank balance sheets, such as undervalued assets.

“The RBI could allow some of these to be counted as capital as per Basel norms, provided a bank meets minimum common equity standards”, Rajan said.

These remarks meant that RBI may in coming days allow banks’ revalued assets to be counted as capital

Reacting to Rajan’s remarks on this issue, V Kannan, former Chairman & Managing Director of Vijaya Bank, said this proposal when implemented would be a welcome step.

“This will supplement the efforts of banks in mobilising capital. The capital requirement of PSBs is very high”, Kannan said.

In early nineties too, the RBI had allowed certain revalued assets to be counted as capital, he said.

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