

Esops for star performers at state-run banks in the works

By [Dheeraj Tiwari](#), ET Bureau | Feb 15, 2017, 02.04 PM IST

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Comments



Esops are common in the private sector, where companies offer stocks to reward and retain key and top-performing employees.

NEW DELHI: Employees of state-run banks may stand eligible for stock options from next fiscal year, as the government is actively considering the suggestion made by the Banks Board Bureau to better incentivise employees.

The bureau last month submitted a report to the finance ministry on rewarding bank staff based on performance, a senior government official said. One of the proposals is to issue shares equivalent to a certain percentage of banks' net profit to employees.

“It is being examined. For large banks, [employee stock option plan \(Esop\)](#) could be as much as 5% of profit after tax,” he said. For smaller banks, it could be about 3%. The [Esops](#) will be offered to top performers as a measure to retain talent, another official said. Apart from Esops, bonuses and other performance-linked packages are also being discussed.

“Naturally, the top-rung officials will be given a large quantum, as they will have only up to five years of service left. For those with longer service duration, the

Stock Plan

Govt working out incentive for employees of state-run banks



BBB SUGGESTIONS

Govt considering suggestions made by Banks Board Bureau	Performance-linked packages may include Esops & bonuses
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Move aimed to retain & attract talent



STOCK OPTIONS

Esops will be linked to bank's profitability

5% OF PROFIT After Tax can be distributed as ESOPs for large banks	FOR SMALLER banks it could be 3% of PAT
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ESOPs also linked to tenure in bank, and overall performance

THE CONSTRAINTS

Poor financial performance of banks	Most analysts expect bad loans to rise in PSBs
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quantum will be low," he added.

Esops are common in the private sector, where companies

offer [stocks](#) to reward and retain key and top-performing employees.

Since the employees stand to benefit from any appreciation in stock price, Esops help also in aligning the interests of the employees with those of shareholders.



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In the last four years, the government has considered various proposals to offer stock options to employees of state-run banks.

However, the plans did not materialised on account of several issues, including poor financial performance of lenders due to rising bad loans.

In 2010, a government-appointed committee recommended that 15% top performers in the executive cadre including the chairman and executive director be offered stock options.

Last year, the then [Reserve Bank of India](#) governor [Raghuram Rajan](#) also made a case for offering Esops to bank staff.

“With public sector banks' shares trading at such low levels, a small allocation to employees today may be a strong source of motivation, and can be a large source of wealth as performance improves,” he had said.

The country's largest bank, [State Bank of India](#) BSE -0.41 %, at one stage was looking to offer an Employees Stock Purchase Scheme, but the plan was shelved.

“At that point, SBI's shares were at a very low price, and it would have made sense. Since then, prices have improved, and it is difficult for our employees to purchase this (stock),” bank chairman [Arundhati Bhattacharya](#) had said, adding that the bank was again exploring the Esop route.

The government official cited first said there would be a common framework on Esops for all state-run banks.

Last month, Banks Board Bureau chairman [Vinod Rai](#) said bank employees would get both monetary and nonmonetary incentives.

The Banks Board Bureau is an autonomous body of the government.

Its tasks include helping improve the governance of staterun banks and in developing their strategies and capital raising plans, as well as recommending selection of their chiefs.