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# Bank Board's proposal on salary gets RBI shock

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MUMBAI: RBI's proposal to put curbs on salaries of CEOs of banks with weak financials might take the wind out of the Banks Board Bureau's recommendation that chiefs of public sector banks (PSBs) be paid market-driven salaries.

Last Monday, the Banks Board Bureau — an advisory body created by the government in April 2016 — issued a statement on the proposals that it had made to the government. Top of the list was its recommendations on the roles, responsibilities, remuneration and service conditions of non-executive chairmen as well as the remuneration of non-executive directors in PSBs 'to ensure that level-playing field with private sector banks is established to attract high quality personages'.

Last week, RBI proposed its prompt corrective action (PCA) norms that banks, which do not meet financial parameters set by the central bank, would face restrictions on compensations for directors and CEOs. The restriction on compensation has been recommended for banks that breach the third-level threshold when it comes to either equity, bad loans or profitability. Indian Overseas Bank, with NPAs of 14% has already breached the third-level threshold.

CEO compensation has been a key issue with PSBs as there is huge discrepancy with private sector. For instance, SBI chairman Arundhati Bhattacharya's annual compensation for 2015-16, according to the bank's annual report, was Rs 31.1 lakh (including incentives of Rs 7 lakh and arrears of Rs 3 lakh) compared to Rs 9.73 crore package of Aditya Puri, CEO of HDFC Bank. Incidentally, HDFC Bank's market capitalisation is more than all the nationalized banks put together. Despite wage differences, PSBs have a higher wage cost than those in the private sector. This is largely because salary of entry level

executives is higher in public sector. Secondly, productivity of private banks, which do not have the same rural and social obligations as PSBs, is much higher than their public sector peers.

Bringing down overall wage cost is not an option for PSBs, considering they have signed an MoU with employee unions where they agreed not to cut staff benefits without consultation.

"The guidelines on sound compensation policy were specifically drawn for private and foreign banks. RBI is aware that salaries of PSU bank CEOs are insignificant given the balance sheet size," said a senior executive with a public sector bank. However, the PCA guidelines announced by RBI do not differentiate between private and public sector.