

| | | | | | | | |
|-------------------------------------|------------------------------|------------------------------|--|--------------------------------|------------------|-------------------------|------------------------|
| 11:43 AM 13 MAR LIVE | சென்செக்ஸ் 33,993 ▲ 75.06 | நிஃப்டி 50 10,454 ▲ 33.15 | கோல்டு (எம்சிஎக்... 30,326.00 ▼ -6.00 | யுஎஸ்டி/ஐஎ... 64.96 ▼ -0.09 | CREATE PORTFOLIO | ஈ-டி மார்க்கெட்ஸ்... | CHOOSE LANGUAGE TAM |
|-------------------------------------|------------------------------|------------------------------|--|--------------------------------|------------------|-------------------------|------------------------|

Public sector banking mess is here to stay. And this is why

BY ET CONTRIBUTORS | MAR 13, 2018, 08.50 AM IST

Post a Comment

By Neeraj Kaushal

RELATED COMPANIES

EXPAND

At a conference I attended a few days ago, the chief executives of a private and a public sector bank (PSB) were asked, “What keeps you up at night?” The private sector chief responded that he worried whether he would have a bank when he woke up. The audience laughed wholeheartedly at what seemed like a funny response.

Punjab N...

Big Change:
The end of Five-Year Plans: All you need to know

The public sector chief replied that he worried whether he would wake up to a Nirav Modi scandal. For a few seconds, there was complete hush in the audience, then some nervous laughter from here and there. The audience seemed more anxious than the bank executive. It really wasn't funny.

The responses of the two chief executives, though light-hearted, are symbolic of all banking, and particularly banking in India. They symbolise the difference in incentives that public and private sector banks face in India today. Private sector banks worry about their ability to assess risky investments and provide for bad loans.

Nationalised banks cannot go bust because they are government owned, but dance to the music of political masters, and so worry a possible explosion of scams. When scams become public, they bring flak on the ministers under whom the shady deals were supposed to have been conceived. These scams enrage the public and shake the cosy politician banker-businessmen nexus.

Bank managers in PSBs do not get fired if their branches are beset with large bad debts. In the private sector, on the other hand,

salaries and promotions are generally linked to performance. Banking is a risky business like any other. Globally, banks make provisions for risky transactions that could lead to bad loans.

| | | | | |
|---|---|---|--|--------------------------------|
|  | <p>Redmi Y1 Lite 16GB with 2GB RAM at Rs. 6999</p> <p>GADGETS NOW</p> |  | <p>Losing your hair? This '10 days' hair oil can grow it back!</p> <p>10 Days Hair Oil</p> | <p>Recommended By Colombia</p> |
|---|---|---|--|--------------------------------|

A robust and dynamic economic system allows businesses to go bust so that new ones can bloom. To safeguard public deposits, private banks with large non-performing assets (NPAs) have often merged, sometimes on orders from regulators, with solvent banks.

A Bank of Scams

But there is no exit policy for PSBs. That is the stated policy of GoI. So, PSB executives worry more about scams created around a system of political-business-bank patronage than the risks of actual banking.

In reality, the PSB rut is far bigger than the Nirav Modi scam. As of December 2017, India's listed banks had bad loans of the order of Rs 8.4 lakh crore. Punjab National Bank's loss from the Nirav Modi scam will be less than 0.2% of the bad loans of commercial banks.

Nirav Modi will be forgotten in a few months or years. But the public sector banking mess is here to stay — unless GoI decides to take several difficult unpopular decisions. So far, the steps RBI has taken to discipline badly managed banks have been woefully inadequate.

To understand the work culture of PSBs, one has to go back to their nationalisation. Nationalisation gave banks the mandate “to further control the heights of the economy, to meet progressively, and serve better, the needs of the development of the economy and to promote the welfare of the people in conformity with the policy of the State,” according to Reserve Bank of India's (RBI) chronology of public sector banking.

In simple words, with nationalisation, the government was able to directly control bank deposits and steer them towards large public sector projects and priority sector lending. Public sector banking did not change much with economic liberalisation. In some ways, it worsened.

PSB executives are often seen complaining that they are not attracting good competitive talent. That was not the case three decades

ago. PSB jobs in those days were among the most coveted jobs in the country.

Of the 21PSBs, 11are under the Prompt Corrective Action (PCA) plan of RBI. After the Nirav Modi scam, news reports suggest that an additional five banks are at risk of being included on the list.

The PCA plan imposes a range of restrictions on bank operations, including issuance of dividends, branch expansion, new hires, and management compensations and fresh lending. In short, PCA reduces the damage that these banks can do to the system, but it also limits the opportunities these banks have to revive with good lending.

Perhaps this is a prudent step, as past attempts to discipline PSBs have not shown many signs of success. One has to ask, if banks under the PCA framework are not allowed to engage in fresh lending, is there any plan to reduce the posts in their credit and [loan recovery](#) departments?

People as NPAs

Why should only PSB bank employees have job security despite their poor performance, whereas professionals in the private sector do not? Why should these job guarantees not be linked to lowering NPAs? One reason top private sector banks have better talent than PSBs is that private sector banks have an exit policy for those who do not perform. PSB jobs, on the other hand, are secure for life for non-performers as well as performers. It is time the government changes that.

(The writer is professor, social policy, Columbia University, US)

Stay on top of business news with The Economic Times App. [Download it Now!](#)

Powered by

[Live Market](#)
[News](#)
[Portfolio](#)
[Mobile](#)
[Live TV](#)
[Biz Listings](#)

[Industry](#)
[Newsletters](#)
[Commodities](#)
[Speed](#)
[Blogs](#)
[RSS](#)

[About Us](#)
[Create Your Own Ad](#)
[Advertise with Us](#)
[Terms of Use & Grievance Redressal](#)
[Privacy policy](#)

FOLLOW US

Download it from
APP STORE

Download it from
GOOGLE PLAY

Download it from
Windows Store

Other Times Group news sites

[इकनॉमिक टाइम्स](#) | [ईकोनोमिक्स टाइम्स](#) | [Pune Mirror](#) | [Bangalore Mirror](#) | [Ahmedabad Mirror](#) | [ItsMyAscent](#) | [Education Times](#) | [Brand Capital](#) | [Mumbai Mirror](#) | [Times Now](#) | [Indiatimes](#) | [नवभारत टाइम्स](#) | [महाराष्ट्र टाइम्स](#) | [ವಿಜಯ ಕರ್ನಾಟಕ](#) | [Go Green](#) | [AdAge India](#) | [Eisamay](#) | [IGN India](#) | [NavGujarat Samay](#) | [Times of India](#) | [Samayam Tamil](#) | [Samayam Telugu](#) | [Miss Kyra](#) | [Bombay Times](#) | [Filmipop](#) | [BrainBaazi](#) | [BrainBaazi APP](#)

Living and Entertainment

[Timescity](#) | [iDiva](#) | [Entertainment](#) | [Zoom](#) | [Healthmeup](#) | [Luxpresso](#) | [Gadget Reviews](#) | [Titanium & Platinum Credit Card](#) | [Online Songs](#) | [MensXP](#) | [Hotels](#) | [Travel Destinations](#) | [Cricbuzz](#) | [Recipes](#) | [Gaana](#) | [Happytrips](#) | [Getsmartapp](#)

Interest Network

[itimes](#)

Hot on the Web

[Share Market](#) | [GST](#) | [Income Tax Slabs](#) | [Aadhaar Card](#) | [How to Save Income Tax](#) | [Axis Bank IFSC Code](#) | [Tax Saving Guide](#) | [Sensex Today](#) | [Nifty Bank](#) | [Sensex](#) | [Income Tax Calculator](#) | [Karnataka Election 2018](#)

Services

[Book print ads](#) | [Online shopping](#) | [Matrimonial](#) | [Astrology](#) | [Jobs](#) | [Tech Community](#) | [Property](#) | [Buy car](#) | [Bikes in India](#) | [Free Classifieds](#) | [Send money to India](#) | [Used Cars](#) | [Restaurants in Delhi](#) | [Remit to India](#) | [Buy Mobiles](#) | [Listen Songs](#) | [News](#) | [TimesMobile](#) | [Real Estate Developers](#) | [Restaurant Deals in Delhi](#) | [Car Insurance](#) | [Gadgets Now](#) | [Free Business Listings](#) | [CouponDunia](#) | [Remit2India](#) | [Techradar](#) | [AliveAR](#) | [Getsmartapp App](#) | [ETMoney Finance App](#) | [Feedback](#) | [Auto](#)

In Case You Missed It

[All about PNB Fraud](#)

[GST](#)

[GST Rates](#)

[Bank FD Rates](#)

[PNB Fraud](#)

[Nifty](#)

[Jaguar Land Rover](#)

[IPO](#)

[Aadhaar Card](#)

[Income Tax](#)

[Sensex](#)

[Crude Oil Price](#)