

Start cutting staff of PCA banks to help them survive

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If these banks are to have any hope of turning around, fixing the staffing has to be an integral part of any turnaround plan.

At a time when there is talk of the need for [RBI](#) to make the guidelines for its Prompt Corrective Action (PCA) less stringent, it is important to keep in mind these have actually been made more lenient than in the past. While a PCA could be triggered if the

return on assets dropped below 0.25% earlier, this can now be negative for two straight years before the first risk threshold kicks in. Levels for the two other metrics, capital and net non-performing assets, however, have been tightened.

Thanks to the seriously large loan-losses notched up by state-owned banks, RBI has initiated a PCA for about a dozen of them. As a result, they have been asked to lend less, skip dividends, stop accessing costly deposits and, of course, cap investing in subsidiaries. In a couple of cases—Dena Bank and Allahabad Bank—RBI has been compelled to impose stricter curbs, asking them not to lend at all and to freeze recruitments. The fact is that most of these banks, and not just Dena Bank and Allahabad Bank, are seriously short of capital.

And while their loan losses may not be nudging 20% like Dena's are, they are big enough to warrant further action. The PCA is the last stage of the process which started with the AQR (asset quality recognition) in Q3FY16. Whether or not each of these banks has breached the third risk threshold or not, a full-fledged PCA should be initiated. Moreover, as envisioned in the PCA guidelines, they should be declared candidates for measures such as amalgamation, reconstruction and winding up. To be sure, the government would not approve, especially one year ahead of the general elections.

Either one of the three options would require large scale retrenchment of employees, a proposition that would be near impossible to sell to the unions even if elections were a long time away. If these banks lend a little, they would be functioning much like payments banks—merely accepting deposits and parking the money in government securities. What the government needs to do is to start cutting costs. Recruitments must be frozen, and at least 25% of the branches should be closed with the employees manning them absorbed in other departments.

It is possible at least the younger employees will read the writing on the wall and look for better opportunities in private sector banks, NBFCs, HFCs or insurance companies. Unless the wage costs come down—PSU banks employ close to nine lakh people—it will be impossible to run these banks at a time when the private sector lenders and NBFCs are running away with

new and profitable customers, whether for loans or deposits. Over time, the deposit base of the PSU banks could shrink to an extent where there won't be enough of a surplus to even pay the wages.

There is little point in blaming anyone for this state of affairs, and while no government will want to take hard decisions, at some time point, the government must think of the taxpayers whose money is the life-support. Ideally, all the banks against which the PCA has been initiated should be asked to stop lending immediately; that way, there is no risk of NPAs, and they won't need any capital. At best, they could provide home loans for which the property can be collateral but only where the homes have been handed over to the owners.

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