It’s hard being a banker: The Indian banking system is probably the most pressurised system

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It’s hard being a banker

It was not too long ago when we all hailed the concept of debt restructuring on grounds that projects failed because of policy failure. The argument was that companies should not be penalised when government machinery did not move, and hence, some latitude was required. With this in the background, the logic is carried forward to the farm sector. If we are willing to restructure the loans of the rich and prepare for deep haircuts, the same logic should be applied for farmer loans because they are poor. Therefore, farm loan waivers have become a habit which cannot be criticised even by bankers. The picture is again similar when we see the urgency to push SME loans where banks have no option but to aggressively meet targets. NPA recognition norms have been made flexible to accommodate the travails of SMEs. Similarly, another big push is given for loans to the lower income groups under the umbrella of affordable housing. The threat of a potential pile up of NPAs is germinated at this stage and the blame is put on bankers for reckless lending when these numbers swell. Are we being fair to bankers?

The irony is that even the central bank is not spared. As long as NPAs increased, everyone was asking why results were not flowing in. But with the IBC in place, and RBI bringing out its notification where strict action is taken from Day 1 of failure, there is immense pressure to relax this rule, or else, it will affect corporate sentiment. It is clearly a case of being damned if one does and damned if one doesn't.

Are bankers really responsible for these loans when they are forced to lend even if it does not make sense? Umbrage is always expressed that it is public money that is being wasted by irresponsible bankers. But the CBI, CVC and CAG do not trail government officials when, say, people perish in a stampede in a station or accidents take place on bad roads because of bad planning where public money has been incorrectly used.

This is the dilemma for bankers, and it is not surprising that no one would like to be a banker in a top position—especially a public-sector bank chief.

Curiously, in almost all the high profile cases of asset failure, which involve consortium lending, it is the PSB chief who can be hounded post retirement and lives in fear, while counterparts in private sector banks are not really affected. Something is evidently amiss in this industry.

To top it all, banks are run like any commercial enterprise where, under the force of competition, growth numbers matter a lot. Targets are stretched for every aspect of business. This can be seen if one reads the transcripts of any bank after results are announced. It is always a case of saying that we grew by x% which is higher than that of the system. Targets are always high for the future, and the staff is motivated to sell more loans. This has led to compromise in quality. Unlike manufacturing, where producing 100 or 10,000 units maintains homogeneous quality as it is mechanised, for lending decisions, it is not the same given every loan is different and, hence, requires individually attention. Mechanising the same business has made it scalable, but also prone to error in judgement.

This is what is being seen today. Credit cards are sold on the telephone, and in a lighter manner, it is said that it takes lesser time to get a home loan than to pay the bill for groceries in a supermarket. In short, there seems to be an irrational push to giving loans in the name of serving shareholder interests. This has led to taking high risks, mis-selling in the guise of cross-selling and so on. With every bank talking of market share, shareholder value, etc, it is but natural that banks have reached this embarrassing situation.

The other part of the story—historical—is the role of the external environment. There is just too much interference in the banking sector, especially when it comes to PSBs. There is no gainsaying the fact that if the government is the owner, it has an inherent right to guide PSBs' operations. But, over the years, PSBs have become a tool for implementing a political agenda, and this is not desirable.

First, since nationalisation, several appointments at the top have been motivated this way, which leads to directed lending. The culture in anything ‘government’ is obeisance and, hence, all employees get fine-tuned to obeying orders. For almost a decade-and-half, the relationship between the PSB heads and the ministry of finance has been one where there are regular conversations on how business should be conducted. Ideally, from a governance standpoint, there should be full independence as interest rate decisions should be taken based on commercial considerations.

Secondly, banks are, at times, told to lend to targeted sectors like the farm sector, SMEs or affordable housing for poor, all of which is political agendas. There are stiff targets for MUDRA loans which have to be met, which, in turn, make bankers run after the ‘target’ rather than becoming quality-oriented. All this is justified under priority sector lending, which ironically is the only part of the Narasimham Committee Report of the 1990s which has not been touched even once in the last quarter century. This creates potential bubbles.

Thirdly, even on the liability-side schemes like Jan Dhan Yojana that are intrinsically commercially non-viable have been implemented more by PSBs than private banks, which diverts important personnel time for such schemes.

Lastly, often, bankers are confused with the continued moral hazard that has been institutionalised in the system. Credit appraisal may lose its sanctity when such dictats come from above. Bankers also lose interest when appraising projects, knowing very well that there will be dictats coming from the top at some point of time. Even today, every political party is talking only of farm loan waivers at a time when the NPA issue has reached its peak.

The overall environment, thus, does breed uncertainty that makes it hard for one to do business. This is probably the most pressurised system where politics and commerce scores over economics. The fissures in the structure are out in the open. Banks should not become tools for implementing any extraneous agenda, and this is the only way in which we can have a better system. Decades of obeisance to external agendas has weakened the fabric of banking.