PSB privatisation will take care of governance issues: IMF report

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MUMBAI, AUGUST 9

More aggressive disinvestment and privatisation of public sector banks (PSBs) would address some of the structural issues in governance, such as incentives and efficiency of these banks, according to the International Monetary Fund.

According to the staff report prepared by the IMF, the government should come up with a comprehensive plan to improve governance, internal controls and operations of PSBs, and consider a more rapid withdrawal of public ownership.

Flagging the recent large fraud at a PSB (read Punjab National Bank), the report said this highlights the weaknesses in the financial sector, and underscores the need for the government to take further steps to improve the governance and operations of PSBs.

PSB governance reform and reducing the government's footprint in the banking system would play an important role in levelling the playing field, thereby promoting competition and efficiency.

Banking roadmap

Referring to the government's January 2018 Banking Reforms Roadmap, which indicates that the recapitalisation will be contingent on measures to strengthen governance and operations, the report said the plans remain vague. The IMF staff recommended that the authorities pursue more far-reaching governance reforms by removing the RBI representatives from banks' boards and defining better the terms of reference for board members, including the Ministry of Finance representative, to strengthen the quality and independence of bank boards.

"Important steps have been taken to improve the recognition of non-performing assets (NPAs) and recapitalise public sector banks (PSBs) but more needs to be done.

"The IBC has the potential to improve significantly NPA resolution and corporate debtors' repayment discipline," said the report.

In addition to speeding up NPA resolution and completing PSB recapitalisation, the report urged the authorities to further strengthen governance and accelerate implementation as part of a broader package of financial reforms.

The reforms suggested include improving bank governance, reducing the role of the public sector in the financial system, and enhancing bank lending capacity and practices, thereby reducing the fiscal contingency risks arising from PSBs in the future.

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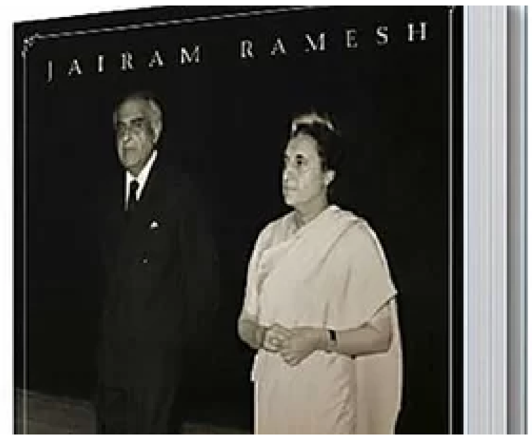

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Pvramakrishna 470 points

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How will privatisation solve the maladies plaguing the PSBs? The functioning of the Banks in the private sector are also not to the desirable level. Failure of GTB in the past and the indiscreet lending by ICICI in the recent past. Because of nationalisation, banks penetrated into the rural areas which is a necessity keeping in view the geographical and demographics factors of our country. Several banks failed in USA also and what suggestions did IMF gave at that point of time must also be made known.

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S **S.P.Verma** 20 points
3 hours ago

The suggestions given are worth considering.
In my opinion fast track promotions due to mass retirements are also a cause of poor governance .This can be improved by cross transfers and unified promotion
Policy in all Banks
Promotion to Senior Management Scale 4 onwards should be based on a common entrance test by an independent agency for all eligible candidates from all Banks and selected
Candidates should be posted at PSB'S
based on experience and requirements of a Bank irrespective of the selected staff's Parent bank.
This I hope will help a lot in improving
Corporate governance in PSB

Like Reply

UG **Usha Gopalakrishnan** 45 points
5 hours ago

Privatisation of PSBs is not a solution for the ills of banking or the PSBs themselves. If that is the case Aall private corporates should have been doing extremely well. Take the case of ICICI bank, the recent events do not indicate that Corporate Governance standards are very high there. Also see many Ltd Companies .Many are showing losses and fudged balance sheets and profit and loss accounts are produced year after year. For Instance, GMR JP Associates, Bhushan Steel and many NP accounts are banks are all in the private sector and they are all showing only losses and no one bothers about the losses that the economy suffer because of their non performance. By and large, Governance standards in our management concept are literally absent and many collude to loot the public is the ground reality.Unless and until ethical standards improve drastically, nothing good can be expected fro our Corporates and Institutions.Boards of Directors are all corrupt and simple changes cannot improve

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Krishna 7.9K points

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But will India have the courage to face the unionized bank officers and staff who want the tax payers to fund their salaries and subsidize their losses? Time to sell off these assets and reduce our indebtedness and tax bill. The business of Government is NOT business (and banking IS a business socialists!)

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