Hit by NPAs and RBI action, PSBs lose ground to private sector peers

K Ram Kumar Updated on January 04, 2019

The double whammy of Asset Quality Review (AQR) and Prompt Corrective Action (PCA) is having a telling impact on the public sector banks (PSBs).

These banks are increasingly ceding market share to nifty private sector rivals.

PSBs have yielded ground to private sector banks on both credit and deposit fronts in the last few years.

According to the basic statistical returns data of scheduled commercial banks, released by the RBI on Thursday, PSBs' market share in overall bank credit declined to 63.2 per cent at the end of FY18, against 65.8 per cent in FY17 and 68.1 per cent in FY16. On the other hand, private sector banks' market share in overall bank credit rose to 29.3 per cent at the end of FY18, against 26.9 per cent in FY17 and 24.1 per cent in FY16.

Share of bank deposits

PSBs' market share in overall bank deposits came down to 66.9 per cent at the end of FY18, against 69.4 per cent in FY17 and 70.6 per cent in FY16. Their private sector peers' market share, meanwhile, rose to 25.4 per cent at the end of FY18, against 23 per cent and 21.5 per cent in FY17 and FY16, respectively.

This data should warm the cockles of many a private sector bank's chief heart even as PSB chiefs worry at the loss of business and trade unionists wring their hands in despair at the gradual weakening of the grip of state-owned banks in the financial services space.

Uday Kotak, MD and CEO of Kotak Mahindra Bank, had, in March 2018, predicted that private sector banks' market share would go up significantly to be on a par with that of PSBs in five years.

The AQR initiated by the central bank in 2015 for clean and fully provisioned bank balance-sheets revealed the high incidence of non-performing assets (NPAs).

Conservative lending

Provisioning for these assets severely dented PSBs' bottomline. Bankers turned conservative in lending, fearing both fresh slippages and the possibility of coming under investigating agencies' lens in future, even if genuine lending decisions go wrong.

In 2017, the RBI put 10 weak PSBs, including IDBI Bank, Bank of India, Central Bank of India, Dena Bank, Allahabad Bank and UCO Bank, under the PCA framework to nurse them back to health through corrective measures, including eschewing certain riskier activities (such as big ticket lending). Indian Overseas Bank has been under PCA since 2015.

The Parliamentary Standing Committee on Finance has noted that RBI has been tightening the screws on the operations of 11 identified PSBs, including their lending and hiring activities under the PCA framework.

The panel was apprehensive that the PCA framework may end up bringing more and more PSBs under its ambit, which may culminate in a vicious cycle in the banking sector, and the economy at large.

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