

## CEA Subramanian backs Nayak panel's report on governance reforms in PSBs

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*Chief Economic Advisor KV Subramanian (Photo: Dalip Kumar)*

Krishnamurthy Subramanian on Friday advocated taking forward the P J Nayak committee's recommendations on governance reforms in public sector banks (PSBs), saying until these reforms were institutionalised, the risk in the sector would persist.

“The Centre has shown the political will to let PSBs run independently without interference in their commercial decisions. But let's also take a step back to do a reality check. This happened due to a political will but has not been institutionalised yet fully,” he said.

He was speaking at a conference on ‘The Future of Indian Banking’, jointly organised by the Foundation for Economic Growth and Welfare (EGROW) and the NITI Aayog.

Referring to the report by the Nayak committee to ‘review governance of boards of banks in India’, Subramanian, who was part of the panel, said it had suggested allowing banks to run commercially. The committee submitted its report in May 2014.

The CEA also called for the diversification of business model by PSBs so that lenders were able to absorb any economic shock. “When you look at PSBs, in terms of their business, the DNA looks no different. This creates economic concerns as all our PSBs get affected in an event of downturn because of similarity (in business model),” Subramanian said. He said a study needed to be conducted on whether a similar business model was followed by PSBs due to “pure accident” or it had been the case ever since banks were nationalised or due to their ownership structure.

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“If banks have different DNAs, we will get more diversification in the economy and put the banking sector on better grounds in an event of an economic shock,” he said.

Subramanian suggested that the banks should leverage technology to screen and monitor borrowers, both in terms of their behaviour and the willingness to pay. He gave a word of caution against a vigilance machinery where bankers were punished for making a bad judgement while sanctioning loans, which could be often read as “mala fide intent in an after-event”. “Irrational exuberance and mala fide intent are two different issues. Vigilance as a function is better handled within the organisation, rather than outside,” the CEA added.

Speaking at the event, NITI Aayog Vice-Chairman Rajiv Kumar made a case for setting up an independent public debt management office to manage the government’s debt, saying it was “an idea whose time has come”.

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Kumar pitched for segregating different aspects of the Reserve Bank of India’s (RBI’s) responsibilities. The idea of a Public Debt Management Agency (PDMA) was proposed by Finance Minister Arun Jaitley in his February 2015 Budget speech.

“...It is important for this particular office to be separate, because then you can pay much more attention on public debt management. That will help the government in bringing down cost of its debt,” Kumar said.

At present, the government debt, including market borrowing, is managed by the RBI. Kumar said the government had been courageous to give the central bank the role of inflation targeting. “Therefore, who then looks after growth, employment, debt and other legal things needs to be discussed,” he said.