Time PSBs had an image makeover

Bandi Ram Prasad | Updated on August 26, 2019 Published on August 26, 2019

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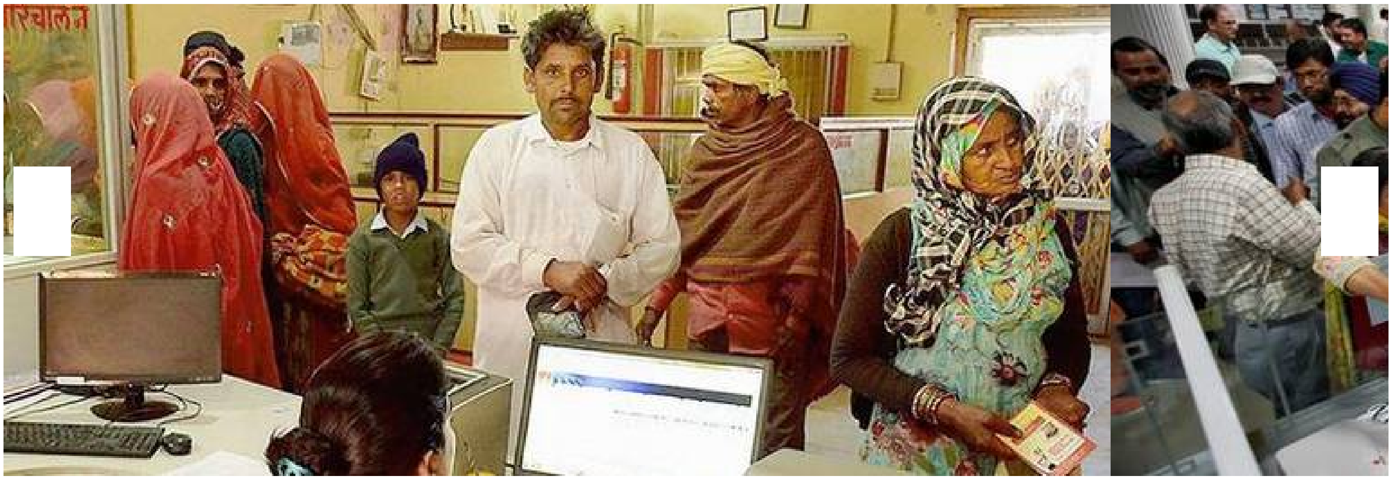

Despite significant contribution to the economy, they suffer from a sharp erosion in confidence and credibility

Public sector banks (PSBs) will now be governed by key performance indicators (KPIs). Given the bad times that these banks are facing now, it might be a welcome move to have such metrics listed and monitored. However, the practice of reviewing PSBs' performance has been going on for long, undertaken by the Finance Ministry at regular intervals. The value addition, though, could have been limited.

What the government needs to work on more seriously and in a focussed manner is creating a culture for PSBs that could make them distinct and distinguished. PSBs are in a pretty bad shape, not just on the bad debts front. They currently also suffer from a sharp erosion in image, confidence and credibility. Their shortcomings often overshadow their contributions and analysts tracking stock performance generally undermine the importance of these banks.

Surely PSBs do have their share of lapses and pressures, brought out by bad lending decisions and political interference. But the lapses that have come to light in new generation private banks are no less serious.

From the perspective of a predominantly bank-intermediated economy, it is important that public policy on banking should lay due emphasis on the importance of their useful interventions in the development process. PSBs still play a significant role in emerging markets. Of the world's 30 top banks, nine are state-owned with a combined share of 41 per cent of Tier-1 capital, 36 per cent of assets and 44 per cent of profits.

A World Bank paper on bank ownership notes that in half of the 70 countries it covered, state ownership is found in varying degrees — from around 20 per cent to 70 per cent. The top Chinese banks which were a subject of ridicule by the international media in the 1990s, raised a decade later about $100 billion in new capital from the very global markets that were sceptical of them.

The biggest emerging markets of today have sizeable state ownership of banks — China (most of it), India (74 per cent), Brazil (44 per cent) and Russia (41 per cent). In well-developed South Korea, too, the state's owns a sizeable 22 per cent.

In Germany, the most powerful economy driving the growth engine of the Euro region, state-owned banking accounts for 30 per cent (up to 50 per cent if regional banks are included) of the total. In the aftermath of the global financial crisis in 2008, it is the infusion of capital by the state that saved global private banks in much of the developed world.

A global study of the IMF sums up their role as one that "fulfils functions that are not performed by private banks, provide financing for projects that benefit the rest of the economy, and provide countercyclical lending." 'Rethinking the Role of the State in Finance' is one of the themes that the World Bank is working on in regard to policy reform.

India's PSBs have had their fair share of good times in pursuing growth, profitability and value. What they need to do now is to strive to rediscover their virtues and potential. For instance, a BIS analysis on profitability of global banks that includes India's PSBs showed that net interest margin in India during the period 2008-12 at 2.46 per cent is on a par with that in the US, higher than in China and way above those in Australia, the UK and France.

Focus areas

Now is the time where building 'key result areas' and creating a distinct culture for PSBs should go hand in hand, embedding features such as dependability, fairness, integrity, transparency and competence. PSBs should hone their skills in stepping up lending during a slowdown.

The following may appear aspirational, but are a few areas that need the attention of policymakers.

Cadre: This was the key strength of the PSBs not so long ago. PSBs had a cadre of staff that were respected and even sought after in other countries.

PSBs, that once a source of talent for private and foreign banks, suffered not due to lack of business opportunities but as a result of erosion in the quality of the cadre.

Having a cadre that is better qualified, trained and groomed for future banking and instilled with leadership qualities must be given priority.

A medium-term plan for the development of a skilled and competent cadre is, therefore, crucial.

Capacity: Financial inclusion and programmes like Jan Dhan, Sustainable Development Goals (SDGs) and climate finance can hugely expand the capacity of PSBs. Instead of letting them work from decrepit and dilapidating branches, which is the case in many rural and urban areas, a distinct branch identity with a minimum standard of amenities and facilities is needed to elevate the presence and image of these banks.

Conduct: Responsible and transparent banking, that does not mislead customers and impose hidden charges and works within a framework of honesty, integrity, compliance and transparency, should be developed.

PSBs should be beacons of best practices rather than thrive on short-changing customers. Their conduct should display professionalism and responsibility.

Character: PSBs should display a distinct, national character. Autonomy is not about flashy designs and colours splashed across bank billboards. PSBs should have a special identity and carry a national brand equity.

Though banks may have separate logos and designs, a feature embedding the spirit of public sector should run as a common thread in all public display and communications.

For sceptics who see no bright future for PSBs, here are some facts: The top 15 state-owned banks in China hold $1 trillion of Tier-1 capital and about $23 trillion of assets. Their counterparts in India have $74 billion in Tier-1 capital and $1.4 trillion of assets. The counter to this could be, China's GDP at $13.6 trillion is more than four times that of India's $2.7 trillion.

Even then, India's PSBs have a lot of scope to catch up in terms of growth and size while helping India reach its immediate goal of a $5 trillion economy.

The writer runs the consulting firm 'Growth Markets Advisory Services'. The views are personal

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