# Governance in Public Sector Banks – An Unpostponable Priority

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The Public Sector Banks (PSBs) in the country present a worrying picture today, of a magnitude which has been never been witnessed before. The financial position of PSBs is really fragile. A recent report brought out by the Boston Consultancy Group (2018) has identified several disquieting features such as that only two of the 21 PSBs being able to generate profits in FY 2018 and the net losses of PSBs aggregating a staggering Rs. 87000 crore, fall in both deposit and credit growth rates from 18% in FY 2009 to 7% and 10% respectively in FY 2018, PSU bank's stronghold over deposits weakening, a sharp surge in their gross NPAs from 3.1% in FY 2012 to 12.3% in FY 2018, with the NPAs rising further after the tougher stressed assets framework put in place by RBI in February 2018. What is actually a matter grave concern is that the PSBs valuation is a fraction of their respective book value. It is also highly alarming that the combined market capitalisation of all PSBs is below that of one private sector bank, HDFC Bank.

What does such a major problem in our public sector banking institutions signify? How is it that this state of affairs has evolved? What is it that has failed? Organisational theorists argue that the downfall of institutions do not happen overnight but over a period of time, due to lack of attention of the stakeholders especially the owners and the top management. In the case of PSBs, the major stakeholders are the Government, RBI, Boards and top management all of whom are expected to take proactive steps to guide the destiny of these institutions. The Government as a major stakeholder is expected to take steps to ensure the credibility of these institutions, engaged as they are in nation building through their economic role. In recent times, the Government has taken certain steps to improve the governance in PSBs such as splitting the position of Chairman and Managing Director, appointment of Banks Boards Bureau (both recommended by the P. J. Nayak Committee). In fact, the Committee has made some seminal recommendations to improve the governance in public sector banks. It would be useful to recapitulate some of the major recommendations:

1. Government to either privatise these banks and allow their future solvency to be subject to market competition or design a radically new governance structure for these banks which would better ensure their ability to compete successfully
2. Government to distance itself from several bank governance functions which it presently discharges
3. The Government to set up a Bank Investment Company (BIC ) to hold equity stakes in banks and incorporated under the Companies Act, necessitating the repeal of statutes under which these banks are constituted, and transfer of powers from the government to BIC. The BIC is to hold equity stakes in banks that are presently held by the Government.
4. Transfer of the Government holding in banks to the BIC and the transitioning of powers to bank boards with intent of fully empowering them
5. Strengthening of capital structure of the banks
6. Dual regulation of PSBs by the Finance Ministry and RBI to be addressed
7. Government to move rapidly towards establishing fully empowered boards and professionalising them with a view to providing greater strategic focus.
8. Need for wide ranging human resources policy changes, including proper succession planning.

As suggested by the Nayak committee the Government has set up the Banks Boards Bureau (BBB) in March 2016 and the term of two years of the first BBB expired in March 2018. The outgoing BBB has made wide ranging recommendations on various issues including on governance. For example, one of constrained by the age of superannuation, in line with the recommendations of the Nayak Committee.

Earlier,Khandelwal Committee(2010) on HR issues in PSBs also made several significant recommendations in building leadership pipeline and dealing with succession issues.

**Board Reforms**

They are considered crucial to reforms in governance because the Board is expected to steer the course of transformation at the bank level. A lot has been written about the need for new competencies and complete professionalisation of bank Boards. There has been ,however, only marginal improvement in the quality of Boards and Board appointments are made under the provisions of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.

In view of the disruptive changes in banking in the last 50 years and more particularly in the last one decade, it is time to take a re-look at this scheme. Similarly, to make governance address the real issues in banking, whether in technology or NPA resolution, a new metrics of competencies is required at the Board level. Old structures cannot provide solutions to the new and emerging problems confronting public sector banking which require a number of initiatives to match global standards. It is just the time to think ahead about Indian banking to align it with the best universal governance standards and extricate from the present deep morass. This act needs to be repealed as recommended by the Nayak Committee and the PSBs need to be corporatized sooner than later.

It is significant to point out that the SEBI prescription on on Corporate Governance in vougue since 2000 which have has substantial impact leading to improvements on the overall governance practices across the private corporate sector are not even fully applicable to PSBs by using cleverly worded exemptions, leave alone creating an impact.

Considering the state of affairs in PSBs today, it is evident that any piece-meal or knee-jerk reaction to address the problems, or tinkering with some new experimentation in governance, would not suffice. The need of the hour is to create a new tapestry of governance by taking some radical steps.

Whether laws are to be changed to make each PSB a company and make their functioning more transparent with autonomous Boards with clearly defined roles of Independent directors or whether it is time to move towards formation of Banks Investment Company (BIC) with wide ranging powers or whether divesting the stake of the government to below 51% or whether initiating some fundamental reform initiatives within the existing system( as proposed by BBB), are the issues that deserve very serious deliberation at the appropriate level.

Given the state of PSBs riddled with massive NPAs and demoralisation in the top cadres, the government has to take some long pending reform measures without loss of time to restore the confidence of the public and restore the place of PSBs in the Indian Banking firmament. The author believes that it is possible to regain the reputation of PSBs as thriving institutions, if some integrated strategy is put in place to reforms in the governance .

There are enough suggestions listed in P.J.Nayak committee(2012), Khandelwal Committee(2010) and the recommendations of BBB(2018) to improve the governance and associated issues. The diagnosis of ailment is complete;the affliction is well defined, yet the steps taken so far are not aimed at structural cure and rehabilitation. Thus, a determined political will alone can help move foreward. A grave problem can not be solved by piecemeal bureaucratic steps. A radical plan to improve the PSBs is as important as the need for fire tenders in a burning building.The stakes to keep banks in good shape are too high and therefore governance reforms in PSBs, should be considered as an unpostponable priority.