AIBEA's Banking News

1 MAY 2018

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Bank union to RBI guv: Protect consumers from hidden charges, push bank account portability

To protect customers, the bank union wants the governor to ensure measures are in place to avoid any unjust practices by banks.

Beena Parmar 30-4-2018

The All India Bank Employees' Association (AIBEA) in a memorandum to Reserve Bank of India (RBI) Governor Urjit Patel sought action on protecting bank customers against unfair practices such as one-sided loan agreements, miss-selling of products and hidden charges levied by banks.

To protect customers, the bank union wants the governor to ensure measures are in place to avoid any unjust practices by banks.

The memorandum has been backed by the depositors' forum, other employee unions and consumer forums.

In the memorandum, AIBEA has sought limiting of liability in an unauthorised digital banking transaction and bank account portability to improve customer experience.

"We, a group of bank consumers and non-governmental organisations (NGOs) are disturbed at the unfair treatment that bank customers suffer

in the form of frequent, arbitrary and one-sided increase in banking charges, or the refusal of banks to automatically pass on contractual benefits such as lower interest to those with floating rate home loans, or the rampant mis-sellling of third-party products such as insurance," said C.H. Venkatachalam, General Secretary, AIBEA.

Stop hidden costs and conditions

In the memorandum he said, one-sided loan agreements with details buried in fine print are bleeding customers. Frequent increase in charges and customers being billed through opt-out clauses that are not noticeable while signing up for a service, must be stopped immediately. Further, wrong emails being tagged by faulty algorithms of banks and finance companies, are leading to emails being sent to people who have no borrowing or accounts in specific banks.

The union body has taking the consensus view of consumer activists, policy watchers, bankers, and trade unions to ensuyre "urgent policy changes to ensure that banks treat bank customers fairly".

The RBI has not taken banks to task on the many "unfriendly practices" that are increasing with impunity, Venkatachalam said.

Over the years, RBI has remained silent on several alleged anti-depositor actions of banks. Moreover, Venkatachalam said, the Banking Ombudsman's rulings tend to side with banks.

According to him, with the increased use of digital payments post the demonetisation drive, it is necessary to have a mechanism in place to protect customers from unauthorised banking transactions.

Limited liability and Bank account portability

Venkatachalam was of the view that RBI must set out a master direction of the draft circular issued in August 2016, mentioning the limiting liability in an unauthorised banking transaction. This will make a huge impact on protecting customers from frauds.

The memorandum also pushes for effective portability of bank accounts as a good anti-dote to several restrictive practices followed by the banks.

"This has been successfully implemented in the telecom sector and helped consumers...Portability of loan exists on paper, but has to be made easier and seamless to execute without imposing fiscal and non-fiscal burden on the consumer," Venkatachalam added.

RBI first actively considered the portability idea in July 2017 where deputy governor SS Mundra at a banking ombudsman conference asked banks to work towards account number portability wherein customers would be able to silently walk out from one institution to another, in case of any dissatisfaction with services.

There is also a petition signed by over 2 lakh people, initiated by the depositors' forum addressed to RBI governor saying, "Please stop fleecing us depositors".

Stating that the Charter of Customer Rights which was issued in December 2014 has been largely toothless, Venkatachalam added that RBI must urgently make provisions to fix timelines for redressal and escalation, penalty for negligent service and interest/compensation to customers for losses caused due to miss-selling.

Will Chanda Kochhar get to have a graceful exit?

ICICI Bank chief may not get an extension at the end of her term next year

MUMBAI, APRIL 27 Surabhi BUSINESSLINE

ICICI Bank MD and CEO Chanda Kochhar, who has been in the midst of a storm with allegations of quid pro quo for giving loans, may be given a "graceful" exit at the end of her tenure, according to sources in the know.

Kochhar's term comes to an end in March next year and the bank could announce her decision to step down towards the end of this year, giving ample time for a successor to be appointed and groomed.

In 2013, ICICI Bank had reappointed the entire top management team for another five years until 2019.

Kochhar was appointed MD and CEO in 2009. Her five-year term was to get over in 2014 but she was given another term. Her current tenure comes to a close on March 31, 2019.

There is an increasing clamour from investors to clear the air over the allegations and questions over a potential successor to Kochhar.

Chanda Kochhar's husband Deepak Kochhar and his firm NuPower Renewables are being investigated by the CBI and Income Tax authorities over allegations of quid pro quo for a Rs 3,250-crore loan given by the bank to the Videocon Group in 2012.

The board of the bank has staunchly stood behind Kochhar, giving her their full support and confidence, and has also denied any talks of a succession plan till now.

"But letting her complete her term may be the best way to show the board's continued support and also get a new MD and CEO, as there have been enough concerns among investors and a few members of the board over the allegations and the CBI enquiry," said a source.

Sources also pointed out that it could be a logical move as 10 years is a long time for a person to remain at the same post.

In this regard, the meeting of the Board of Directors of the bank will be crucial. Though the main agenda is approving the bank's results, discussions on the loans are also likely to take place.

Axis Bank's losses and CEO Shikha Sharma's fall from grace: The buck always stops with those at the helm

Business S Murlidharan | Apr 27, 2018

FIRSTPOST.

One of the pitfalls of being feted as a celebrity is its downside -- when the person commits an indiscretion, it attracts full-blown negative publicity and when the person falls on the wrong side of the law, he/she falls from grace. In short, one's celebrity status has a dangerous flipside to it.

CEOs of top companies often find themselves in this boat. When the going is good, they are feted and hog all the adulation, as well as a good chunk of the salary pie. Chanda Kocchar, the CEO of ICICI Bank, who is in the doghouse over a Rs 3,250 ICICI loan to the Videocon group was earlier hailed as the woman who broke the glass ceiling in a male-dominated industry. But now, not only is she in the doghouse but her envious salary of Rs 7.20 crore per annum is being questioned as scandalous in the context of the average salary drawn by ICICI Bank employees.

Shikha Sharma, who took over the reins of Axis Bank in 2009 after quitting the ICICI Bank group, alas, has also suffered the mortification of being in the same boat as her former colleague and professional rival Chanda Kocchar. Only Sharma's travails are of a different kind. While Kocchar is facing the heat of criticism of extending an improper loan, a loan to her husband's benefactor, Sharma has been facing a sling of arrows on multiple fronts.

Firstly, over the fact that she presided over the piling up of bad debts or non performing assets (NPA) at Axis Bank. While the festering NPA problem is identified with public sector banks (PSB), Axis and ICICI are two private sector banks that have been unable to live up to the legendary reputation of private sector banks, in guarding their flanks against reckless lending resulting in lower immunity from the NPA problem. Axis Bank's NPA mounted from 0.96 percent in December 2009 to a whopping 5.28 percent in December 2017, casting a slur on her otherwise distinguished career, which followed a b-school education from the IIM Ahmedabad.

Secondly, Axis Bank has also been pulled up twice by the Reserve Bank of India (RBI) for under-reporting bad loans for financial years 2016 and 2017. The divergence i.e. the difference between the RBI's and the lender's assessments—was around Rs 9, 480 crore, nearly one-and-a-half times the amount reported by the bank. In financial year 2017, the lender once again reported a loan divergence of Rs 5,633 crore, denting its financial credibility in a big way. The results for the last quarter of the financial year 2017-18 has been unedifying— Rs 21.89 billion after the central bak wrenched away all the wiggle room for banks to window-dress their accounts. Almost all the schemes, such as corporate debt restructuring, sustainable structuring of stressed assets or S4A, strategic debt restructuring, and flexible structuring of existing long term project loans stand abolished. The joint lenders forum (JLF) designed to resolve potential bad debt has also been disbanded. The RBI read the riot act to the banks in February 2018. That was the final straw in the camel's back -- Axis had no place to hide its bad loans.

Thirdly, Axis Bank came under increasing scrutiny during the heady and frightful days of demonetisation, in November and December 2016. 19 of its employees were suspected of playing ball with crooks in laundering their ill-gotten demonetised currency notes resulting in numerous raids on its branches.

Furthermore, in December 2017, market regulator SEBI cracked the whip on Axis Bank, which allegedly facilitated the leakage of price sensitive information to whatsapp investment groups.

In the event, Sharma's exit was always on the cards though she sensibly tried to contain the damage by pre-empting the RBI move, to cut short her fourth extension by two years out of the three granted -- she offered to quit, reading the writing on the wall. History would have a difficult job of judging Shikha Sharma's career at Axis Bank. Was she a victim of circumstances over which she had little control? Or was she slack in controlling her employees? The truth, as always, lies somewhere in between.

Axis Bank posts first-ever quarterly loss

SHIKHA SHARMA, CEO, Axis Bank - PTI

Lender cites 'speedy'NPA recognition

MUMBAI, APRIL 26 BUSINESSLINE

The buzz about a possible takeover of Axis Bank by Kotak Mahindra Bank grew louder on Thursday after the former reported its first ever quarterly loss in the fourth quarter of FY2017-18.

Dragged down by a three-fold rise in its provisioning for bad loans, Axis Bank reported a net loss of Rs 2,188.74 crore for the quarter to March 31,

2018, against a net profit of Rs 1,225.1 crore in the same period a year ago

The bank’s share price was down by less than 1 per cent to close at □494 on the Bombay Stock Exchange.

Bad news compounded

The poor quarter compounds the bad news at Axis Bank, which has announced that its Managing Director and CEO Shikha Sharma will step down ahead of her scheduled exit.

According to top banking industry sources, the bad run for Axis Bank could push it towards a merger with Kotak Mahindra Bank. Nomura Financial Advisory Services said in an April 11 report, “With a very short time left in the CEO’s term at Axis Bank, RBI’s pressure on Axis Bank’s management and with an asset quality clean-up exercise continuing, we believe this is the best opportunity for Kotak Bank to acquire or merge with Axis Bank.”

Axis Bank’s net profits for the full year plunged by 92.5 per cent to Rs. 275.68 crore from Rs 3,679.28 crore in 2016-17.

‘NPA recognition speeded up’

“The results this quarter are a reflection of the bank’s desire to accelerate NPA recognition, and get past the asset quality issues as soon as possible,” said Shikha Sharma. She expressed confidence about growth in retail as well as corporate lending.

“The recognition phase of the NPA cycle is nearly complete,” said CFO Jairam Sridharan, adding that the Bank expects new NPA formation to decline significantly in 2018-19.

Bad numbers

For the quarter ended March 31, gross NPAs as a proportion of gross advances jumped to 6.77 per cent from 5.28 per cent in the preceding

quarter and 5.04 per cent in the fourth quarter of 2016-17. Net NPAs jumped to 3.4 per cent of net advances in the fourth quarter from 2.11 per cent a year ago. In absolute terms, gross bad loans increased to Rs 34,248 crore in the fourth quarter from Rs 21,280 crore in the same period a year ago. Net NPAs also doubled to Rs 16,591 crore.

"The bank has recognised slippages of Rs 16,536 crore during the fourth quarter.There was an accelerated NPA recognition in the BB and Below book, particularly the power sector," the bank noted. Sridharan said that 65 per cent of the new NPA in the fourth quarter came from the power, infrastructure and iron and steel sectors.

Axis Bank has also earmarked Rs 7,179 crore as provisions and net contingences for the fourth quarter, up from Rs 2,581 crore in the same quarter of 2016-17.

One of the largest private sector lenders in the country, Axis Bank has seen its gross non-performing assets soar nearly five-fold since March 2017, along with a steady decline in net profits.

The RBI had in March imposed a ☐3-crore penalty on the lender for violating NPA norms.

Upbeat on loan growth

Axis Bank, however, remained upbeat about its loan growth of 18 per cent in 2017-18, inlcuding a 12 per cent increase in corporate lending. It, however, said it is unlikley to pursue long-gestation project loans.

The bank will also not be paying a dividend.

"No profits are available for distribution as dividend... Accordingly. no dividend has been recommended by the Board of Directors for the year ended March 31,2018," it said in a regulatory filing.

What's the role of public sector banks?

SUBIR ROY, BUSINESSLINE 30 4 2018

Stirring the pot Leads to heated exchanges - MediaProduction

Except for funding infra projects — which has landed them with the NPAs — it isn't clear what they can do that others cannot

Public discussion so far on the Rs. 11,300-crore fraud perpetrated by Nirav Modi on Punjab National Bank has been one-sided, with public sector banks being pilloried. State Bank of India chairman Rajnish Kumar has now come forward to stoutly defend the banks' space.

Kumar has observed that as all the firms with huge unpaid bank loans which have come up before the National Company Law Tribunal are privately owned, private ownership does not automatically result in good governance.

This is a bit disingenuous. They are arraigned because the system is seeking to take them away from their owners who are unable to run them viably. Talk of privatisation of state-owned banks has arisen because they are seen to be sinking in bad debts. The principle is the same: owners behind incompetent managements which run up huge losses need to be removed.

Threat of closure

Before economic liberalisation came, many loss-making private sector organisations were nationalised to save jobs. There is a plan to wind up some continually loss-making nationalised concerns which have no hope of recovery. Recently, several such pharmaceutical concerns have been earmarked for closure. If no meaningful bids are forthcoming for some firms before the NCLT, they will surely be liquidated.

Public ownership of businesses is not intrinsically unsound. Utilities and businesses which face little competition but serve a public need are typical candidates for state ownership.

An alternative system is to rigorously regulate them, which amounts to undeclared partial public ownership as regulation takes away many of the prerogatives of private owners.

Right now, there is an intense debate in the UK over whether or not the railways should not be re-nationalised. A significant section of citizens, mostly supporters of the Labour Party, feels that the privatisation initiated by Margaret Thatcher has not worked. In reality, today three-fourths of the industry (track, signalling, big stations) is already under public control. Thus, it is too early to bury the idea of state ownership.

Also, state ownership and efficient management can coexist, though that’s the exception rather than the rule. Steel Authority was well run under V Krishnamurthy. As global steel demand improves, it can again deliver better numbers. But the same cannot be said about Bharat Heavy Electricals as its staple, coal-fired power plants, have had their day as dirty fuels are today a dirty word.

This brings us to a key issue about public ownership. Environmental concerns can tilt the balance in its favour. A wide railway network which reduces the need for people to take out their fossil fuel-driven cars is preferred both on environment and safety grounds.

Till electric cars become common, maybe after 2030, the choice in some cases is really between private operations with public support versus straightforward public ownership. The British experience is that it is difficult to ensure adequate investment (necessary for safety) under private ownership. There are similar intrinsic merits in public ownership of basic healthcare and education.

But can we stretch this to banking? Kumar says that only PSBs can be expected to take banking to “troubled and remote parts of the country”.

This is no longer true. Bank nationalisation took banking to these parts up to a point, but a substantial gap remained in achieving financial inclusion. Microfinance organisations and those among them which have become small finance banks can and do go to parts of the country where PSBs go reluctantly and often only in a token way.

Basic differences

Plus, there is a big cultural difference. PSBs are mostly manned by staff from urban areas who go to rural branches to mark time to qualify for further promotions. They are dismissive of and often rude to unlettered and poor customers, rural or urban, who must be hand-held through the banking experience.

Microfinance staff, often hailing from non-urban areas, treat their customers far better and are far more supportive. The microfinance model, inherited by small finance banks with a recovery rate of 98 per cent plus, is hugely superior when it comes to unsecured small lending.

So we come back to the basic question: What will PSBs do which other banks will not? It can be said that only they will fund essential large infrastructure projects as, after they have burnt their fingers over such projects, private banks will keep away from them. We are essentially saying that PSBs should be asked to continue with the kind of lending that gave them huge NPAs in the first place. Maybe, but this is not a happy situation.

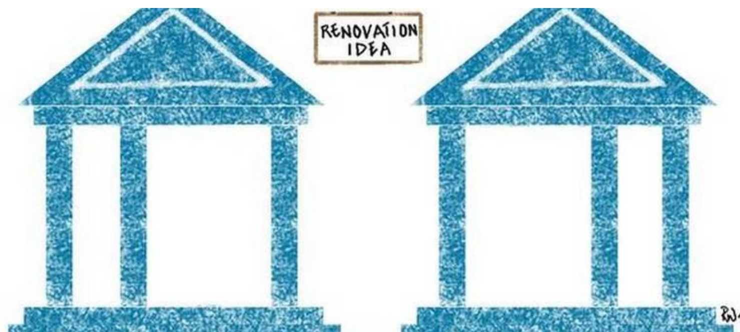
Where Kumar is right is in saying that the public discussion should focus on how to ensure that such frauds are not repeated. The only way to ensure that PSBs are properly run is to put in place professional managements and insulate them from political interference. Aware of this need, the NDA government created the Banks Board Bureau and put the former CAG, Vinod Rai, at its head. But after doing this the Government did not give it the space it needed.

Political interference, particularly in appointments, through finance ministry officials, continued. Thus, the political culture of the country, be it under the UPA or the NDA, seems incapable of letting PSBs be run with professional autonomy.

The writer is a senior journalist

Privatisation won't fix PSBs

AARATI KRISHNAN BUSINBESSLINE



The idea that private ownership can solve all their problems with risk control and governance is prima facie flawed

The bad loan woes and precarious capital positions of public sector banks (PSBs) are hogging the headlines once again. As the Government cobbles together a recapitalisation package to rescue them, there's a clamour to fix the problem for good, by privatising PSBs.

This week, the CII urged the Government to dilute its controlling equity stakes in PSBs to 33 per cent to help raise capital. This roused the ire of the All India Bank Employees Association, whose spokesperson asked industry groups to repay their loans first. While bank employees may have their own reasons to oppose privatisation, their angst is quite valid.

Lately, privatisation has been presented as a panacea to the many ills plaguing Government-owned banks. But the belief that the public sector equates to sloth, inefficiency and corruption, while private ownership automatically brings with it efficiency, financial prudence and governance, isn't really borne out by the Indian experience.

A private sector problem

Let's not forget that it is India's private corporate sector that has gotten the banking system into its present NPA (non-performing asset) quagmire in the first place. As of end-March 2016, RBI data showed that public sector lenders accounted for over 90 per cent of the ☐5.5 lakh crore

gross NPAs with banks. But nearly 100 per cent of those loan defaults were by private borrowers.

In the last three years, as regulatory intervention has forced banks to disclose a closet full of skeletons, PSBs have been roundly criticised for poor lending decisions, inadequate risk controls, throwing good money after bad and most of all, bad governance.

But Credit Suisse's 'House of Debt' reports record in painstaking detail the genesis of bad loan problems at Indian banks. The analysis makes it clear that the present NPA woes of PSBs can be traced directly to the investing excesses of some of India's top private industrial houses during boom times.

Who created NPAs?

In the post-crisis years from FY07 to FY12, Credit Suisse notes, ten of India's largest (private) corporate groups were on a debt-fuelled expansion binge. As the who's who of India Inc (Reliance ADAG, Vedanta, Essar, Jaypee and Lanco to name a few) invested in mega projects in power, metals and infrastructure, believing that high GDP growth rates would sustain, they took on a five-fold expansion in their aggregate debt from Rs 1 lakh crore to Rs 5.5 lakh crore. Some also made expensive overseas acquisitions. Sold on the India story, domestic banks also went the whole hog on funding these projects. The ten groups saw their share of total bank loans jump from 6 per cent to 13 per cent.

By FY13, the global commodity cycle was in meltdown and the domestic capex cycle was juddering to a halt. Many of the groups may have found it easier to pare debt, had they embarked on asset sales right then. But with regulatory hurdles hitting some projects and scams stalling others, many projects failed to take off. With dwindling cash flows to service debt, these groups landed in a classic debt trap. Though the House of Debt firms made barely enough money to cover interest payouts in FY12, many took on more loans (aggregate debt shot up to ☐7.3 lakh crore by FY15) which eventually turned into NPAs.

Though banks did curtail new loan exposures to the stressed groups post FY13, they continued to restructure old loans and kick the can down the road on disclosing them as NPAs. It was only after the RBI started tightening screws on banks in FY14 that the true magnitude of the problem came to light.

Now, with the benefit of this hindsight, one can certainly criticise banks for their lack of due diligence on projects and concentrated exposure to cyclical sectors. But if the banks are guilty of poor judgement in funding these projects, private promoters are equally culpable for letting their ambitions get the better of prudence and taking on excessive financial risk.

Interestingly, public sector companies in the very same sectors — power, metals and infrastructure — did not indulge in the same excesses as their private peers, during the boom times. NTPC, Coal India, NMDC, Nalco or NBCC for instance emerged from the downturn with much stronger balance sheets than their private rivals. Clearly, private sector ownership doesn’t automatically guarantee good governance.

In the same boat

What about the cases of deliberate oversight, where PSB bosses gave in to political pressure or possibly even accepted quid pro quo to lend to the risky corporate groups? Well, they do exist. Even RBI officials informally admit that phone calls from political bosses played a big role in lending decisions by PSBs.

But then, without an actual forensic investigation into the individual NPA accounts, it is difficult to say what proportion of the bad loan decisions were prompted by political influence and corruption, and what part by mis-judgement.

In fact, recent developments clearly show that PSBs were not alone in extending credit to India’s riskier corporate groups. In the last few quarters, private sector banks lending to industry such as Axis Bank, Yes Bank, RBL Bank and ICICI Bank have revealed rising slippages from their legacy loans. That many of these ‘divergences’ pertain to earlier

accounting years and have come up after RBI's prodding, suggests that these banks have been loath to recognise them. RBI data shows that that 9.3 per cent of the industry loan book for private sector banks was stressed by March 2017, as opposed to 28.8 per cent for PSBs. Thus, the difference between the lending decisions of private corporate banks and PSBs is one of degree, rather than kind.

Why, given that some House of Debt members such as Jaiprakash Industries and Reliance ADAG also feature ECBs and FCCBs on their books, it is apparent that even savvy global investors have made the same mistakes.

What needs fixing

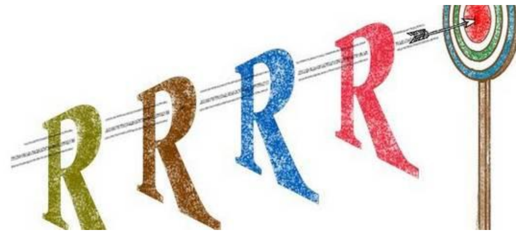
But how does knowing all this help in reforming PSBs? Well, it suggests that PSB reforms must not begin and end with privatisation.

First, the key to tackling existing stressed loans lies in forcing the owners of the distressed corporates to sell their assets and de-leverage. The process is already underway under the new Bankruptcy Code. Two, the screws on India Inc's governance structures need to be tightened, to ensure greater checks and balances against mis-allocation of capital, borrowings and diversion of funds. This is a work-in-progress. Three, Indian banks need access to early warning systems on imminent default with tighter accounting norms on NPA recognition. Concerted efforts by SEBI, RBI and the Bankruptcy Board are laying the foundations of this change.

Finally, given the public disquiet around bail-in provisions and NPAs, this is a bad time for the Government to moot privatisation of PSBs. But it can certainly distance itself from their top-level appointments and operations by vesting its equity stakes in a holding company, and allowing the Bank Boards Bureau to take independent decisions. It is unfortunate that the Bureau has so far remained a toothless tiger

Bank recapitalisation is no magic bullet

MADAN SABNAVIS   BUSINESSLINE



Fixing governance issues in banking — such as NPA numbers being underplayed, and autonomy in PSBs — is equally important

The 4-R approach to the banking challenge that has been espoused of late requires introspection. The strategy involves recognition, resolution, recapitalisation and reforms in the banking space and targets public sector banks which admittedly have relatively unfavourable prudential ratios. While there is a sense of urgency to get the 4-R done with expediency, there are some fundamental questions that we need to answer to ensure that the approach works and is not breached.

Sub-optimal choices

First, the recognition issue is quite delicate. While the Asset Quality Review process was taken up in 2015, it does appear that conceptually, the identification problem has not been sorted out. There are reports that the RBI has found considerable variance in the quantum of NPAs declared by some private banks, which indicates that there is scope for differential interpretation. Further, the concept of classifying NPAs as restructured assets was deeply flawed and led to the practice of evergreening. The argument put forward was that the projects failed not because they were inherently bad, but because of policy glitches involving impropriety. When the regulator took umbrage and the classification was changed, it lead to a torrent of NPAs being revealed. The process does not yet seem to have been completed. The message is that any kind of forbearance or accommodation made by the system to redefine NPAs is not a good sign.

Second, while there is euphoria on the Insolvency and Bankruptcy Code (IBC) being in place and errant companies being taken to task, the potential for wide-scale disruption and attempts to game the system is high. There could be sub-optimal solutions reached in order to eschew being called 'insolvent', as any such sale could be at a much lower price. Further, the revelation of names runs the risk of having these companies being blacklisted in future. In fact, if they are not, there could be ethical questions raised regarding banks' lending to entities that have defaulted. Hence, while it is good for cleaning the system, the collateral damage caused to borrowers who have gone down due to a downturn in the business cycle but can otherwise recover once there is a turnaround in the economy, is considerable. This is a serious issue which does not have an easy solution given that none of the earlier strategies for NPAs has worked.

Third, the Government has announced a package for recapitalising banks which is probably a Hobson's choice as there is no alternative. Hopefully this should not become a habit, as moving funds for capitalisation through the government-banks-government route can be only a last resort. If it is felt that PSBs are bogged down by being government-owned, then a bold decision should be taken to lower the government stake to less than 50 per cent, while the timing of equity sale can be decided later. Reluctance to make such a commitment has exacerbated the situation. Alternatively, if the decision is to retain public ownership and change the work ethic, then the Government should willingly recapitalise these banks, especially the weaker ones.

Fourth, there is a lot of talk about reforms in the banking sector. The ambitious Indradhanush scheme did not quite work the way it was expected to. While there is considerable talk about governance in PSBs, the important thing to note is that governance is a creation of the system in which institutions operate. When there is interference, lending judgments tend to be skewed and funds flow in the wrong places. Blaming banks is not the solution; correcting the systems is the way out.

Fixing the problem Some areas have to be fixed. First, there should be no political interference in lending decisions. The Centre has assured us that nobody influences decisions. But we cannot be sure if the State and local governments have kept away from influencing decisions. Second, bank boards should be chosen through a UPSC-like system and not by doling out favours to those who served political interests or have occupied prestigious positions. Third, management as well as skilled staff have to be paid market-related salaries; while support staff could remain on the existing pay structure, core critical functions need higher compensation. In fact, the chairman or CEO should have a fixed term of five years and selection should be on a transparent basis without succumbing to the temptation to bring in only personnel from the private sector. The argument is that if the public sector culture does not change, then getting in a private sector person could demotivate the existing personnel. Besides, those who have been with the bank through the years are the best to head such organisations given their superior knowledge and experience.

Fifth, at the policy level it is essential to review the approach to banking. The very concept of loan waivers and other compulsions like interest rate subventions should be reconsidered. While there could be compensation by the States, the ethos of banking gets eroded when there is official sanction for a culture not to repay loans, which stretches to all sections. Curiously, as of March 2017, the share of priority sector loans in NPAs for PSBs was high, at around 30-40 per cent. While there are arguments for such lending, from the commercial point of view it is high-risk. When regulation makes such lending mandatory, the same ideology gets extended to sectors like infrastructure which further adds to the risk.

Sixth, the Government also has to be discreet when it keeps batting for lower interest rates. It is now axiomatic to badger the RBI to lower the repo rate and banks to transmit the same to boost lending. By doing so the message is that credit has to increase through lower rates with no ‘mention’ of credit quality, which is the major concern. Therefore, there is

pressure on banks to enhance lending, which can lead to a perverse selection of portfolio.

Pressure's inevitable : It may be recollected that when the Indian economy grew by 8-9 per cent annually, lending was buoyant as it was expected that growth would only be in the upward trajectory. Little attempt was made to deepen the bond market for infra funding, and the banks took on this on the back of a liberal monetary policy. The turn in the business cycle will invariably pressure bank balance sheets again.

Hence, the crux is to get the lending right which requires skills, that can work only if there is no interference. We also need to be certain if we want the Government to own the banks and if so, whether they should be allowed to operate like any commercial venture. Otherwise, the charade will get repeated.

The writer is chief economist at CARE Ratings. The views are personal

AIBEA THIS DAY MAY 1	
1943	Com. Ramanand, former General Secretary, Delhi State Bank Employees Federation and former Jt Secy AIBEA (date of birth)
1953	Com. S N Dutta former Secretary AIBOA (date of Birth)
1954	Torch light processions with family members bankmen condemn wage cut in Sastry Award recommendations throughout the country.
1955	Com. A C Kakkar and F M Pinto attend May Day celebrations on behalf of AIBEA at Peking, China- invitation from All China Federation of Trade Unions.
1995	Inauguration of All India Vysya Bank Employees Unions Own building at Bangalore.
1995	Our House Magazine 'Bankflag' commences Publication. Editor Com. T. Chakraborti.

ALL INDIA BANK EMPLOYEES' ASSOCIATION

Central Office: PRABHAT NIVAS

Singapore Plaza, 164, Linghi Chetty Street, Chennai-600001

Phone: 2535 1522 Fax: 2535 8853, 4500 2191

e mail ~ chv.aibea@gmail.com

Web: www.aibea.in