Future of Public Sector Banks in India

M. K. Datar

"Ownership and control of people on important aspects of financial sector is quintessential for newly developing social structure in India. Financial institutions are an important tool in the hands of society to accomplish social and economic goals. The decision of nationalising important banks is taken with sole aim to have people's control over main institutions collecting people's savings for the purpose of lending to productive activities. The government firmly believes that nationalisation of banks will accelerate collection and effective investment of national resources to successfully achieve our national goals......"

Smt. Indira Gandhi
19th July 1969

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Dada Purao Research And Training Institute
Annapurna Pariwar

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Content

Publishers Note

On 19th July 1969 14 major commercial banks were nationalized by the Goverment of india under the prime minister MRS. Indira Gandhi.

This singular event shook the financial sector. Socio political atmosphere experienced tremors.

Forces of statusquo were disturbed. Reallignment of forces were set in motion.

The grip of corporates on the savings of the community, was loosened.

Institutional credit flow to agriculture, small scale industry and trade, self enployed and artizans was channelised thus releasing the new untapped productive forces.

A new hope was created.

To-day the public sector Banking while entering 50th year has covered large geographical area. It has absorbobed New technology. It has developed New financial Products. It evolved new concepts such as priority sector lending. Differential rate of interest (DRI) loans. Intergrated Rural Area Developement (IRDP) Lead Bank Districts scheme, SLBC to reach out to hitherto neglected sectors and areas to bring them in economic mainstream.

The Public Sector Banks and their employes played active role in opening PMJDY accounts in crores. They efficiently handled the unprecedented workload during demonetization

Still the journey for lnclusive economic growth through public sector banking needs to be speeded up.

In this back ground the Dada Purao Research And Training Institute of Annpurna Pariwar requested Shri M.K. Datar Former Chief General Manager of IDBI to write a small booklet on the ***''Future of Public Sector Banks In India''***

Shri M.K. Datar agreed to our request and produced this Booklet, in record time of just 15 days.

We are glad to release this booklet on the occassion of Founders day of Annapurna Pariwar. Late Com. Narendra (Dada) Purao the founder of Annapurna Pariwar, was also the Assitant Secretary of All India Bank employees Association (AIBEA) which spearheaded the campaigan and struggle for achieving Bank Nationalization in 1969.

We hope the booklet shall stimulate holistic thinking amongst the stakeholders connected with public sector banking.

We hope the booklet shall regalvanize the collective thinking and resolve of trade union activists in banking and finacial sector to Strengthen public sector banking in the challenging periods ahed.

We thank the workers and management of New Age Printing Press for the co-operation in printing this booklet.

Dr. Medha Purao - Samant

Prologue

As we enter into the Golden Jubilee Year of the Nationalization of 14 major banks effected with great fanfare amid factional war within the ruling Congress party on July 19, 1969, the mood in the industry is far from festive. It's ironic that at this very moment there is widespread public concern about large burden of bad loans and the resultant weakening financials of banking sector but more particularly of public sector banks. The demand for privatization of government banks - at least of few of them if not all - as a way out is certainly not shared by all. It is not clear either what special role government owned banks could/need play in a competitive, open economic system which private financial intermediaries - a bank or Non-bank Financial Company (NBFC) would not or could not perform. Moreover, even if certain activities (e.g. financial inclusion) justifying government ownership emerges, nevertheless the existing government owned banks' structure / activities would warrant a relook.

As owner of public sector banks, Central Government has provided additional capital to maintain regulatory capital standards from time to time. Though except one Public Sector Bank (PSB) all others are listed on the stock exchanges, Government of India remains the sole capital provider as few banks can raise additional equity through capital market offerings owing mainly due to high NPAs and resultant weak financials. Though a case for privatization of PSBs has often been made on different occasions, in the past with a view, say, to unburden the government to enable PSBs become strong enough to take on world competition, this time such demand is raised on back drop of enormous quantum of NPAs raising existential question about survival of PSBs.

Bank nationalization in 1969 was not an isolated act. It was part of an overall strategy of planned development. Public sector entities were expected to play a key role in several areas where private investors were unable or unwilling to invest. Some of the critical areas among them were reserved for public sector investment. But where private entities were already operating, but not playing the role that was expected of them were nationalized. Government was instrumental in setting up new institutions in several areas; banking and financial institutions as also real segments like steel, fertilizers, electricity generation etc. It also took over ownership of private entities in banks, insurance and coal mines. The main idea was to help achieving goals of national planning. In several cases Public Sector entities were in monopolistic situation, but not so in other industries like steel or power. Performance of these entities differed across industries & time. But persistent losses incurred by many PSUs have remained a matter of public concern. How to improve performance of PSUs and importance of providing operational autonomy to management and professionalization of management in this context was a common theme of public discussion in 1980s and 1990s.

The situation underwent significant changes since 1991 when policies of Liberalisation, Privatization and Globalization were introduced. The role of state owned enterprises was in for reconsideration. Given the political compulsions due to opposition for outright privatization from trade unions, such moves were presented as disinvestment of government ownership facilitating listing of these entities on stock exchanges and offering an avenue/opportunity for them to raise additional equity from public. This would also ease burden on government budget.

But what role public sector entities could play in a market based economy is an issue still in search of answer acceptable to all concerned. The Narshimham committee (GOI, 1991) saw its recommendation as an action agenda to make public sector banks/ financial institutions more efficient, professionally managed and fit to face internal and external competition. It also believed that efficient financial system would contribute to growth of real sectors by providing sophisticated financial products and services at competitive prices which would spur growth of real economy.

Technological changes are other driving force for changes in industry organization and structure. World over banking industry has changed quite drastically impacting products offered by them & internal organization of banks as also competition they face from NBFC and Fintech companies who operate in technology related areas relevant to banking. Developments in communication and computing have taken banks to not just to homes of their customers; but they can now move around with their bank account in their pocket along with mobile phone.

Traditionally Indian banks lent only to trade & industry while agriculture, SSI lending were emphasized since first bank nationalization in 1969. But now loans extended to individuals for purchase of house, vehicles, education, travel etc. account for a major portion of their loan portfolio. Given the bad loan problems experienced in large corporate loans, retail banking has emerged as a safe lending avenue which each bank is vying to pursue. At least in urban areas, individuals need not visit a branch to withdraw cash or to get a cheque book issued, or for updating of their pass books. Expansion of banking system in terms of branches, deposits, credit etc. is quoted as achievement of nationalization. Besides absolute expansion, financial services have expanded as a share of GDP & banks have contributed to this relative growth as well. Over the years, ownership by the Central Government has hugely impacted the growth & development of not just PSBs but Banking industry as such. Though PSBs have started losing their share of advances & deposits since turn of the century, these still account for more than half of bank assets. As such, the role of government in running PSBs is still important to maintain the interests of all stakeholders that include deposit holders, small borrowers and bank employees.

Technology developments is raising existential questions world over about future of banking as we have known it. But the question regarding future of PSBs in present Indian context is primarily that of improving their internal performance. The question of performance improvement is not limited to government owned entities only in financial sector but engulfs other industries also. While profit is certainly an important aspect, but ensuring profitable operations in a competitive business environment is difficult. Diverse factors such as ability to offer customer friendly products/services at competitive prices, maintain technological leadership, set up a cost effective marketing set up, motivate and incentivize employees to become a responsible partner in organizational growth and effective monitoring of management while offering them full operational autonomy are not unrelated to profitability; these are rather preconditions to maintain profitability. Whether government ownership facilitates or obstructs government owned entities maintain their market position, technology leadership is the crucial factor. Whether or not privatize these entities is not by itself very important.

Large sized companies have emerged through separation of ownership and management. Owners of successful companies are found to keep their role limited to choosing good, efficient senior management, set their performance goals and monitor their performance regularly but provide operational autonomy to management. This does not seem to be happening in the case of government owned enterprises in India.

Performance of Public Sector units that do not enjoy monopoly position is indeed unsatisfactory in diverse sectors such as airlines, telecom, and transport.

It is often argued and correctly so, that financial markets are indeed different from commodities markets. Working of financial system also affects working of real sectors of the economy. State has therefore a special role in financial market. (Stiglitz , 1993) but state ownership may not be neither necessary / sufficient to ensure proper functioning of financial markets. Bank nationalization in 1969 provide a vantage point where political authorities used control over major banks to facilitate accelerated growth and also to distribute benefits of growth more evenly across regions and sectors. In the process, a virtual monopoly of PSBs was created. Over the last fifty years significant changes have happened in economic policies, economic environment and technology. We need to take a relook at the case for government ownership in view of these changes and the vast experience of performance of public sector banks over all these years. The current surge in NPAs faced by banks adds urgency to this task but its importance is not limited to banks.

This paper however presents an assessment of improving performance of PSBs and financial institutions. It traces the evolution of public sector banking in historical context but the main focus is on present day challenges before the industry. It is very clear that government cannot adopt a hands off approach towards working of banks and ensuring their stability and maintaining public confidence in their working - whether or not it has significant ownership stake. Even when financial intermediaries are privately owned, they face tight regulatory & supervisory regime often presided over by the Central Bank (Reserve Bank of India (RBI) in India). As several large banks are operating on global scale, efforts are made to harmonize regulation of these global banks by Bank for

International Settlement at Basel. Like the Trans- Atlantic financial crisis of 2007-08 brought into the open the defects in the regulation of such regulatory regime, the growing bad loan problem of Indian Banks - evolving since 2012 onwards - has raised critical issues also about appropriateness of bank regulation. However, as significant portion of bank assets are with PSBs the issue of management of these entities too needs critical appraisal. As the RBI itself has recently raised the issue of adequacy of its power in regulating public sector banks (vis-a- vis private sector banks) also raises the issue of governance in public sector banks.

Commercial banks were nationalized in 1969 & again in 1980 to augment credit flows to agriculture, small industries & weaker sections - much of which was classified as priority sectors. The current crisis revealed that public sector banks had large portion of their credit portfolio allocated to large borrowers while in the case of private banks such allocation was not as significant. It would be apt to say that risk assessment system in public sector banks in the changed economic environment since 1991 was not upgraded. It would indeed be quite simplistic to maintain that an exit strategy by government would be the panacea. But a rethink on role of government ownership of banks cannot be avoided. This rethink should involve all stakeholders which certainly include depositors, borrowers, employees and the majority owner (i.e. Government of India) but also society at large as collection of savings and its gainful deployment concerns all. If during 1970s & 1980s private ownership of banks was considered as a major hindrance in reorienting lending pattern of commercial banks, the present bad loan problem reveals public ownership is not sufficient to ensure proper risk assessment and project selection in a global, competitive economic environment. While Government ownership has comforted depositor class as they have retained faith in safety of government owned banks, recurrence of bad loan problem and periodic mass infusion of capital by government makes the limits of government ownership clear. It's the management of public sector banks which needs an overhaul.

Rest of the paper presents a historical overview of the developments and problems faced by the Public sector bank over the past fifty years and identify an approach which would enable public sector banks continue to play a meaningful role in the changed business & economic environment. The way forward suggested in this paper may not be revolutionary (or even novel) but if this attempt helps initiate public debate around the relevant issues in this context, the purpose of its publication would be achieved.

Evolution of Public Sector Banking

State and Finance

Indian state has played an active role in issues relating to economic development. India wanted to achieve accelerated economic development through rapid industrialization, perhaps to make up for the time lost in retarded development during the British colonial rule. Given the lack of entrepreneurial talents, as also shortage of capital for long term investment, Indian state ventured in everything; building railways / roads, dams, power plant, fertilizer factories & steel mills . Such state activism was not limited to industry alone. While public sector investment was to be funded through budgetary resources, the need to develop & support private entrepreneurs across the country was also recognized. Towards this end specialized institutions were set up by Central government as also different state governments. For industrial development, Industrial Finance Corporation (IFCI) was set up in 1948 while State Financial Corporations were set up in different states by RBI & respective state governments in 1950. The commercial banks as exited then were engaged in financing of trade transactions. Besides these were located in metro / Urban areas. Not only their presence was narrow but also size was small in relation to both the size & needs of the development of the country. Hence separate specialized institutions were set up with ownership & capital support of government directly or through RBI. In 1956 ICICI was set up in collaboration with the World Bank as a specialized institution to develop capital market and provide foreign currency loans to industrial units. Industrial Development Bank of India was set up under an Act of Parliament in 1964 as a subsidiary of the Reserve Bank of India as a principal financial institution to co-ordinate the activities of various organizations operating in the field. In addition, it was mandated to meet the long term fund requirement of industrial units directly and provide refinance to institutions engaged in providing finance to small & medium scale industries.

Control over Commercial Banks

In the meantime Imperial Bank of India was transformed in to State Bank of India under government ownership in 1955. Imperial bank was formed from amalgamation of 3 presidency banks in Bombay, Calcutta & Madras as a joint stock company. But it had a special status & privileges as it was doing government business. These special functions were transferred to a great extent to RBI when it was set up as Central Bank and Imperial bank operated as a commercial bank. Rural Credit Survey Committee had proposed "efforts to direct the funds of the banking system into certain neglected but important, sectors of the economy such as Agriculture and spread banking facilities in rural areas". 92% of the shares were with RBI while others had exchanged their holding in Imperial bank for shares of SBI. SBI was given a target for branch expansion and Reserve bank agreed to meet a portion of the losses of the new branches for a limited period of time. (History of Reserve Bank Vol. 2 pp. 348).

Bank nationalization was accepted by the Congress Party in 1948 itself at various fora. Despite the nationalization of Imperial bank in 1955, demand for more state influence on operations of private banks was persistent. Social Control on Banks was presented as a compromise with those seeking taking over of ownership of banks. In December 1967 a scheme for social control of banks was presented in the Parliament by the then Finance Minister Morarji Desai. It was stated that the traditional links of banks with industrial and business houses needed to be snapped, and that credit decisions should conform to the development priorities of meeting the credit needs of vital sectors like agriculture, small-scale industries and exports. It was felt that 'mere acquisition of the banks would severely strain the administrative resources of the government' and the influence of industrial groups or businessmen could be neutralized by changing the board of directors. He also proposed the setting up of the National Credit Council for better planning of credit, and new powers to be conferred on the Reserve Bank. It's interesting to note that both the owners and bank unions were against certain provisions of the proposed bill which was referred to select committee and came into effect from February 1, 1969. However, the political developments made the bank nationalisation imperative and the decision was announced on July 19, 1969 in a national broadcast by the then Prime Minister Indira Gandhi. There were copious discussions / debates among the rival groups about need for nationalisation without giving any time for judging the efficacy of Social Control measures introduced only a few months before. We now know that the political expediency dictated the timing of this decision. As recorded by Jairam Ramesh, P.N. Haksar who played a critical role in the decision making conceded while speaking to D. N. Ghosh that "we would have in any case taken that step, sooner or later . Timing was dictated by political necessity"

A committee of economist was set up by Chandrasekhar to study the banking operations in India. Its report, submitted in 1967, observed that i) bank funds were not invested for financing projects according to national priorities but were invested in low priority areas; ii) between 1953 and 1965 loans advanced by banks to agriculture declined not only in absolute terms but also as proportion of total funds; iii) easy and cheap availability of credit to a few industrial houses had encouraged the growth of monopolies and concentration of economic powers and iv) the RBI has not been effective in preventing this tendency and that RBI had to be cautious in exercise of its regulatory powers lest public confidence in banks in general might be undermined. The report also mentioned that total of 188 persons served on 20 leading banks; these directors also held 1452 directorships spread over 1100 companies. It also observed that directors in five leading banks were connected through common directors were also connected with 33 insurance firms, 6 financial institutions 584 manufacturing and other companies, 26 trading companies and 15 non-profit associations. Chandrasekhar quoting this report stated social control over banks could be secured only through takeover of the banking business by the state. (History of the RBI vol. 3 pp. 19) . Also a committee appointed by the planning commission to look into industrial licensing system headed by Prof. R.K. Hazari, recommended state control of banking because " it would be difficult to undertake credit planning unless the link to control of industry and banks in the same hands is snapped by nationalisation of banks. (ibid. p. 20)

It is therefore clear that the main objective behind nationalisation of banks in 1969 was a continuation of a theme prevalent since independence; in absence of private entrepreneurship state would need to play an active role in furthering the process of economic development. In the case of banking, private players were present on the scene but they were unwilling to expand their operations outside urban areas lend to agriculture sector and offer their services in rural areas. These very concerns had prompted nationalisation of imperial bank in 1955. Government did not take over all private banks to avoid appearing confiscatory nor did it intended to affect foreign banks which in any case had very small foot print. So by nationalising 14 major banks each having deposits over Rs. 50 crore government took control of about 90% of the commercial banking sector. RBI indicated that the intension was to preserve the individual identities of the nationalized banks. Potential issues relating to pay and seniority, if these organisations were to be unified, may have influenced such stance. Government experience in merger & unification of a number of insurance companies into Life Insurance Corporation of India may have influenced government's attitude in this regard. This decision was welcomed by private industry as retaining individual entities would facilitate competition among them which will help improve quality of services to bank customers. The ordinance promulgated on July 19, was subsequently passed in to Act by Parliament but the same was challenged in the Supreme Court which upheld the legislative competence of Parliament but struck down the nationalisation Act. This warranted issue of fresh ordinance to comply with the verdict of the Supreme Court.

Table1: Commercial Banks Since Nationalisation

	Jun-69	Jun-79	Jun-89	Mar-99	Mar-09	Mar-18
No. of Bank Braches	8262	30202	57699	67041	82408	149163
of which Rural	1833	13377	34791	32894	31699	50922
	22.2%	44.3%	60.3%	49.1%	38.5%	34.1%
Deposits (Rs. Crore)	4646	28671	1478534	433819	3834110	12401200
Advances (Rs. Crore)	3599	19116	89080	254015	2775549	8650600
% share of credit to Priority Sector	14	30.9	42.6	34.1	35.2	33.03
Investments (Rs. Crore)	1361	9109	54662	164782	1166410	3331710
Credit: Deposit Ratio	77.5	66.7	60.3	58.6	73.9	75.39
Investment :Deposit Ratio	29.3	32.7	38.9	38	35.7	29.05
Cash:Deposit Ratio	8.2	12.5	16.2	12.4	7.3	5.11
Employees					838769	1301703
(% of Officers)					39.90%	61.9%

Source : Statistical Tables Relating to Banks in Inda

The major objectives of expanding the reach of banks in rural areas and augmenting credit flows to agriculture which was neglected hitherto were achieved quite rapidly. By 1979 i.e. in the first decade total number of branches increased to 30202 and the share of rural branches increased from 22% in 1969 to 44%. (Table 1). With expansion of branch net work, banking came within reach of ordinary people not just in rural areas but in urban & semi urban areas itself. This enabled banks to expand their deposit base which enabled them to lend to the priority sectors - the precise definition has changed over the years but it consists agriculture, small industry & small traders and transport operators . Share of these sectors from 14% at the time of nationalization rose to nearly 31% in 1979. Faster deposit mobilization expanded lendable resources of banks and government appropriated a portion of it through increase in statutory liquidity ratio which banks need to maintain. This required banks to put a portion of their deposits in securities issued by Central and state governments and other approved securities often guaranteed by Government. The share of resources appropriated by Government is reflected in the increase in investment deposit ratio which increased from 29% to 32%. It was thus apparent that immediate objectives of bank nationalization viz. increased credit flows to agriculture and expansion of banking services to rural areas were achieved in the first decade itself. While branch expansion was mainly a activity by public sector banks, the portfolio restrictions such as SLR and stipulation to extend certain portion of total credit to identified priority sectors were applicable to all banks. True, as bulk of the bank business had come under government control share of government banks in lending to priority sector was understandably high. But the other private and foreign banks were also subject to regulatory stipulations of RBI and hence had to follow RBI's instructions when they open new branches and follow SLR & CRR norms as well.

However despite the success of bank nationalization and introduction of tighter credit pattern for all banks, Government took over 6 banks in April 1980 after Congress party came back to power after its defeat in 1977. The History of RBI mentions it as a 'non-event' in comparison with high political drama and legal controversies associated with the first nationalization. RBI was not consulted during the first nationalization and the then Governor was clearly unhappy about the decision but the second nationalization was undertaken at the initiative of RBI. According to memoires of then RBI Governor I.G.Patel, some private banks had grown in size and had become "personal fiefdoms of the individuals who disregarded all rules and advice with impunity". The cut off limit for determining eligibility of banks was Rs. 200 crore. The purpose of the nationalization was 'to further control the heights of the economy, to meet progressively and serve better the needs of the development of the economy, and to promote the welfare of the people in conformity with the policy of the State '. The decision was unsurprisingly criticized by the industry and welcomed by the workers unions. Various associations of bank employees, however, welcomed the step as necessary on account of the several malpractices rampant in these banks, and, more importantly, the harassment of their employees and victimization for trade union activities.

The trends witnessed during the first decade continued during the second decade also. While the branch expansion continued, share of rural branches rose to 60%. Share of priority sector was 42% at 1989 partly due to higher portion stipulated by RBI. Several development programs initiated by government envisaged bank funding and over the years targets for credit to agriculture were included in the Finance Minister's speech while presenting Union Budget every year.

Financial Institutions

After the second bank Nationalisation, the share of public sector banks in total bank deposits and credit had reached 92%. But banks in India had always given working capital loan to industrial / commercial enterprises. While this is important, it does not meet the need for long term funds to create new capacities through setting up new plants & factories. Commercial banks were mobilizing short term deposits and though banks do give term loans by taking a liquidity risk they were unable to extend loans for 10/15 years which are required for creation of fixed assets. Hence Government of India and RBI had created a network of financial institutions by setting up specialized Development Financial Institutions (DFIs) at all India & state levels. While setting up separate government institutions may have been inevitable as bulk of banks were owned by private sector. But the process of setting up new specialized institutions was unabated even after a major segment of banking sector came under government control. In 1971 a separate fully owned institution Industrial Reconstruction Corporation of India (IRCI) was set up under companies Act for rehabilitation of sick industrial units. It underwent reconstitution as IRBI in 1985. As a separate company to deal with sick companies alone was found unviable, it further underwent transformation as IIBI into a full fledged financial institution in 1997. However, it was decided to close down in 2006-07.

In 1976 government took over ownership of IDBI from RBI and was given the task to provide finance directly as also provide resource support to primary lending agencies like banks & SFCs through refinance of industrial loans and co-ordinate the activities of other all India development financial institutions engaged in industrial finance. While both DFIs & Public Sector Banks were owned by Government & were subject to administered interest regime, DFIs had no access to primary source of funds as they were not accepting public deposits. In later years DFIs were given limited access to term deposits (with minimum maturity of one year) and also permitted to raise capital gains bonds which permitted them to raise funds for 3/5 years. Notwithstanding this, DFIs were dependent on GOI for resource support either through its budget or through a quota of government guaranteed bonds which were subscribed by banks and insurance companies which too had come under government control by 1970. These DFIs were not considered as Public sector Banks as DFIs were not "banks" as they were not part of payments mechanism but in loan markets they were lending together to industrial clients. Though RBI had limited regulatory powers over these Non Bank Financial institutions (though RBI's regulatory reach did expand over all NBFCs over time whether government owned or not) they shared government ownership and were part of the same public sector environment.

The process of setting up new specialized institutions continued even in 1980s when EXIM Bank set up in 1982 to finance Export/Import transactions, NABARD to co-ordinate functions of various institutions engaged in financing and supporting agriculture and rural industries (1985). SIDBI was set up as a subsidiary of IDBI in 1990.

Table 2 : Financial System Government ownership & Control circa 1985

Sector	Ownership & Management	Regulation & Supervisory oversight
Commercial Banks	Predominantly	RBI (interest rate and
  Co-operative Banks	Government Private	deployment of funds specified by RBI) RBI & Co-operation
  Development Finance	 Near complete	departments of state Government RBI for interest

Institutions Insurance Companies	Government Government	rates. Lending pattern linked to industrial licensing system. Investment pattern fixed by
Mutual Funds (UTI)	Government	Government UTI Act 1964
Capital Market	Private	Private
Non-Bank Finance Companies	Private	Companies Act & RBI

Source : Datar M.K. (1999) A Primer on Financial sector Reforms **Think Line 5**

Availability of finance is a major constraint on growth from a micro - individual perspective. Given the undeveloped state of capital markets and urban centered commercial banks government took deliberate efforts to create specialized financial institutions to support capital formation and expand and widen entrepreneurship. It also took over major commercial banks over the years. The extent of ownership and regulatory control on different segments of financial system is schematically indicated in Table 2. The financial system as developed over the years was characterized by a decisive ownership control by government over the entire gamut of financial institutions. As regards commercial banks share of their credit going to priority sector was 42%. Bank deposits had emerged as important avenue for household saving accounting for about 40% in 1980s. Similarly, share of institutional credit (viz. commercial & co-op banks, & Government) increased from 7% in 1951 to 29%in 1971 which further increased to 61% in 1981; the increase was mainly due to credit flow from commercial banks. Share of credit to agriculture had increased from 2% in 1968 to 17.4% by 1990. As revealed from Table 1, of the total deposits mobilized by banks in 1989 about 60% were available for credit to different sectors while 39% of it was invested in government securities. Nearly 16% was held in the form of cash reserve as dictated by RBI as part of monetary policy measures. While high level of Cash Reserve Ratio (CRR) reflected credit control stipulations, high Statutory Liquidity Ratio enabled nearly 40% of deposits was transferred to central and state governments. These affected income of banks as cash reserve were generally interest free, (or low interest earning on a part of it) investments in Government securities too carried a lower coupon rate. High preemption of bank funds was a major point raised when performance of banks was discussed. Moreover, bank's ability to extend loans to non-priority sectors was getting curtailed.

Development financial institutions who were not mobilizing funds from households were getting allocation of SLR bonds which were subscribed by banks and insurance companies. The financial system developed had intricate relationship among them. The overall picture of it, captured by total assets, is presented in Table 3.

Need for Financial Sector Reforms

However precisely at the moment when government had established fuller control over financial system as also other sectors of the economy, the advantages of competitive economic environment wherein private initiative has a decisive role were highlighted since mid 1980s. The experience of several countries in East Asia which developed export oriented industries by use of foreign capital and modern technology was one of the factors that prompted a rethink on economic policies pursued since independence. Some measures of trade reforms and liberalization of industrial policies were initiated since mid 1980s. Though economic growth accelerated in 1980s funded as it was by domestic & external debts was not sustainable. Balance of payments crisis erupted in 1990s triggered the process of economic reforms which resulted in process of liberlisation and decontrol of foreign trade and industrial

Table 3; Banks in Indian Financial System

(Amounts in Rs. Crore)

	1971	1981	1991	2001	2011	2016
Commercial Banks	7945	37988	192541	1294974	7183398	12959587
State Co-operative Banks	635	2356	10096	20359	48839	78580
DFI	408	8116	64089	252952	336652	655900
Sub Total	**8988**	**48460**	**266726**	1568285	**7568889**	**13694067**
	55.53%	57.11%	48.05%	59.17%	44.18%	41.24%
Insurance Companies	2454	8014	35401	194884	1512638	3076537
Mutual Funds	105	522	23164	90587	592250	1754619
Post office Savings	988	6631	50279	225087	619908	680558
Provident/Pension Fund	3501	13000	52000	NA	NA	118810
NBFCs	150	1476	17236	NA	NA	1723100
Sub Total	7198	29643	178080	510558	2724796	7353624
Cap Market	NA	6750	110279	571553	6839084	12154525
Grand Total	**16186**	**84853**	**555085**	**2650396**	**17132769**	**33202216**

Source : Datar M.K. (1999) A primer on Financial Sector Reforms 5 Think Line, Nashik for first three columns. Thereafter data is sourced from RBI, SEBI, IRDA & PFRDA. The data is on gross basis and may involve double counting.

licensing policies. The reforms in real sectors of economy covered industry, international trade, import of foreign technology and encouragement to foreign investments necessitated reforms of the financial system as well. Government's role in development and ownership of financial system was to achieve national priorities. In the liberalized economic environment such national priorities were set to change as markets would reduce the role, if not completely replace, national economic planning. Also, as part of economic reforms Government finances were reoriented to control fiscal deficit of the central and state governments as part of fiscal consolidation. In such an environment government had to scale down its activities including its support to different financial institutions. In absence of resource support from Government, DFIs needed reorientation. In an open competitive real economy financial system too needs a level playing field to improve performance and be capable to compete in a global business environment.

Narsimham Committee Recommendations

The Narsimham Committee set up in 1991 remains a landmark as it presented a perceptible analysis of the performance and problems of the financial sector since first bank nationalization. While it is understandable that it analysed banking sector issues in detail it also dealt with issues relating to state level & pan India DFIs. Since then it has provided a point of reference for any discussion about problems/ development of financial system. It also drew considerable fire from critiques of financial liberalisation. Taking a panoramic view of the financial system since 1969, it noted the remarkable growth of financial system both in commercial banking & development banking segments. Banks extended their operations in rural & semi urban areas as also increase in share of priority sector credit and sizable amounts invested in government securities issued by the Central government and various state governments. It noticed distinct weakness in quality of its assets as also weak profitability notwithstanding the quantitative growth by the financial system. As the Committee was working on the backdrop of economic reforms program unveiled in July 1991 the main issue was whether financial system could continue to operate on business as usual basis in future or it would need changes & reforms to stay relevant in the times to come.

The recommendations of the Narasimhan committee covered the entire gamut of their functioning like directed lending & investment, interest rates, accounting policies, organization, methods & procedures. The Committee made detailed recommendations. Many of these recommendations have been implemented in full (e.g. deregulation of interest rate, reduction of SLR & CRR etc.) some partially and some not at all. However the approach of the committee in making these recommendation was that "financial sector reforms are a necessary concomitant of trade and industrial policy liberalisation so that the competitive spirit and efficiency that we are seeking to bring about in the real economy would cover the critically important financial sector and be further sustained by it". It specifically stated that "ensuring integrity and autonomy of operations of banks and DFIs is by far more relevant issue at present than the question of their ownership. It did not made any recommendation about dilution of government ownership to eventually privatize them though it did recommend listing of select public sector banks & financial institutions to facilitate raising part of their capital requirements from public at large as government would face tight budget constraint with its commitment to reduce its fiscal deficit. It did set the vision of a healthy, competitive, market oriented, efficient and professionally managed financial system which would make the distinctive contribution to the growth of the Indian economy in the challenging decades ahead.

The committee did propose that Government should indicate that there would be no further nationalization of banks so that existing disincentive for the more dynamic among the private banks to grow would go. The committee recommended that existing guidelines issued by RBI and Government of India as regards internal administration of the banks be reexamined to ensure independence and autonomy of banks. The committee felt that the Indian banking system is over regulated and over administered. It firmly believed " duality of control over the banking system between Reserve Bank and Banking Division of the Ministry of finance should end. (p. xxiii)

Besides the factors such as directed credit and investment programmes, administered interest rates which have squeezed the incomes, expenditures have increased due to expansion of operations and staff in quantitative terms has resulted in deterioration in housekeeping (p. 34-35) Over manning at various levels has become an unfortunate aspect of banks' organizational systems over time (p. 35)

Impact of Reforms

It is neither necessary nor possible to discuss the implementation of the recommendations of the Narsimhan committee. Certain recommendations such as reduction in CRR & SLR, deregulation of interest rates, stipulation of income recognition norms, asset classification and provisioning requirements were immediately taken up for implementation. These were understandably implemented over a period time in a phased manner. These are reflected in reduced preemption of funds mobilized by banks as investment ratio and cash reserve ratio was lowered leading to higher credit deposit ratio. New Bank licenses were issued first in 1995 and again in future which saw new private players. Its notable that three existing FIs (ICICI, IDBI and UTI) over which government had significant ownership control were among the recipients of new banking license. Understandably, it took quite some time for these new players to scale up their operations and to compete with established PSBs. The new private banks starting from a clean slate, introduced new technology (centralized core banking platform) and ATMs to provide better access to their services. This not only resulted in introduction of modern technology among Indian banks but competition ensured that existing players too were forced to adopt these techniques over a period time.

Introduction of prudential policies brought financial weakness into open resulting in several banks showing low profits and even losses. Moreover, bank balance sheets became more transparent and comparable across different players. Though privatization of PSBs was not on the reform agenda, listing on stock exchange was encouraged as a way to reduce banks dependence on government for raising additional equity. Today all but one bank are listed on stock exchanges and have raised equity from public in the past. However, portfolio investor interest is conditional on good performance and large strategic investor interest would be difficult unless government is willing to accept minority stake.

Special status of DFIs was abolished. These were permitted to offer working capital loans, cross directorship among different FIs was discontinued. However as resource support from government and SLR bonds was phased out, the DFI business model came under pressure and two of these (ICICI & IDBI) entered commercial banking. IFCI has reoriented its operation as a NBFC.

Not all recommendations of Narsimhan committee were accepted by Government. Another committee, also chaired by M Narsimham took a relook in 1998 at financial reforms and its recommendation in 1991. What was not implemented was also significant. One of its major recommendation was to restructure the 28 public sector banks into 2/3 large banks which would face international competition, 4/5 large national banks which would compete in domestic market and remaining banks to be reorganized which would operate in smaller areas. This would need mergers and acquisition of existing banks. Unions were against this as this was thought as back door privatization. This recommendation was reiterated by Narsimham committee again but, not withstanding periodic discussions and behind the scene developments, it remains unimplemented. The recent amalgamation of SBI subsidiaries may be termed as exception but whether it is in tune with spirit of Narsimham committee is debatable.

The other important recommendation was about government may retain ownership control but should limit its ownership role to appoint professional senior managers and monitor its performance. The dual control of public sector banks among RBI and Government should end. A member of the committee had in fact recommended abolition of (then) banking Division may appear too dramatic but the policy of 'self denial' by government by giving full operational autonomy to professional managers remains unimplemented. If any proof was required for this it is provided by the fact of the RBI appointing a committee to improve governance of Bank Boards in 2014!

Post Narsimham Reforms

The 1998 Narsimham committee, while taking a stock of unfinished reform agenda, reiterated the need for reorganization of banking sector. Subsequently the agenda of financial sector reforms agenda shifted to wider issues of reforms in capital market, convertibility of the Indian Rupee etc. Implementation of the Narsimham committee recommendations brought out the weakness of bank balance sheet in the open and the finance minister while presenting budget in Feb 1993 estimated that banks would need to make provisions of Rs. 10,000 crore towards bad debt. The Government announced capital support of Rs.5,600 for public sector banks so that they are able to meet capital adequacy standards of Basel committee. These bonds were designed in such a manner they would not put any immediate burden on budgetary resources but interest payments on these bonds would add to future interest expenses.

With decontrol & and delicensing Indian industry came under pressure as it faced overseas competition giving rise to bad debts in the books of banks & DFIs. The Bad debt peaked in 2002 and thereafter declined, mainly in relative terms as economic growth and investment picked up. The bad debt had reached a low in 2008. During these year DFIs found their business model unviable with withdrawal of access to captive sources of funds. ICICI & IDBI entered commercial banking. During the growth phase financial sector reforms were discussed around two themes; restructuring of PSBs and capital requirements of banks -particularly public sector banks - due mainly of projected increase in credit to fund investment boom including large investments required for infrastructure sector under Public Private Partnership Model as Government was unable to meet the requirements through its budget. It was expected that newly introduced Basel II norms would actually help banks to conserve capital. Various periodic rounds of discussions on hoped for reorganization (dreaded by labour unions) were conducted but there was no outcome. Government maintained bank Boards would take the decision about merger, but bank boards have hardly ever done anything without government's tacit or explicit approval. Seemingly, Government was not in favour of losing its control over banks. Budget presentations always covered banking reforms. In 2001 the Finance Minister reiterated that "In the light of new competition in the banking industry it is necessary to strengthen the management of the public sector banks. I propose to provide greater autonomy to bank managements." With a view to provide greater independence to bank managements to frame their own recruitment strategy and to implement it was proposed to abolish the Banking Services Recruitment Boards. In 2007 a Government of India appointed committee (GoI, 2017) presented a detailed plan to make Mumbai an International Financial Centre while Planning Commission appointed a committee to suggest 100 steps for improvements in financial sector including banks. As bank loan crisis deepened, RBI appointed committee made specific recommendations in 2014 to improve the governance in Banks. Modern technology, competitive environment & improved governance will be most important factors that would impact future of public sector banks.

Impact of Modern Technology

Developments in Information and Communication Technologies have changed face of production and distribution in several industries but commercial banking is a prime example. Banks were associated with brick & mortar branches where consumers would go physically to do banking transactions. This situation has changed quite drastically; initially very slowly but the pace has accelerated with growing penetration of computers and internet. Banks had a crucially important role because they operate payments mechanism. People need to withdraw cash to undertake transactions and cheque clearance too is important to settle non-cash transactions. On both these counts uninterrupted operations of banks was important for functioning of business & commerce. This was the source of the power of trade unions as they could bring trade and industry to grinding halt. But this has changed slowly but steadily. Though it is nearly 50 years when ATM were introduced, the combined effect of credit/debit cards, ATMs, core banking platform, Net Banking and phone banking have multifarious effects on banks in terms of customer interface, internal organization as also competition. Moreover, with advent of mobile banking, telephone companies realized their potential in payments and remittance business. Banks could therefore face problems from telephone companies. All these developments were possible with significant support from technology companies by developing appropriate software. If others could provide payment services the novelty of banks vanishes. Other activities like acceptance of deposits or grant of loans are undertaken by many entities. Loans are extended by NBFCs while deposits are accepted by some NBFCs and by even manufacturing companies. Innovations like crowd funding will potentially remove the need for financial intermediation itself. Of course, anybody who wish to enter banking would need permission from banking regulator and if telecom companies wish to enter bank turf they would need regulatory clearances from both - telecom and Banking - regulators. That's the background for currently popular jib; banking will remain but not necessarily banks. While as it happens often, such statements include a bit of exaggeration but the impact of technology on business environment, and organization of industries cannot be denied and banking is no exception.

We are all familiar with changed customer interface as we are able to do bank transactions - bill payments, remittances - through net banking, phone banking etc. Even ATM is used to do additional tasks besides cash withdrawal. Core banking platform enabled bank management to keep a tap on all transactions branches are undertaking. This had implications for internal organization of activities like audit; it could also offer its customers new products viz. collection facilities across the country. It became possible to organize different activities like loan processing & sanctions, disbursement and monitoring at different locations without affecting customer convenience. Certain activities like loan processing and sanctions & documentation etc. could be done centrally while disbursement could be organized as per customer convenience. The bank which is more pro active in adopting new technology may also have a competitive advantage to create profitable business opportunities and increase their business reach and market share. Inevitably, as technology creates possibilities for new products and opportunities the traditional ways lose their business potential.

From the perspective of this analysis, adoption and adaptability of new technology by PSBs is important. Banks experienced significant growth when computerization was low and communication facilities were rudimentary. Expansion of banking services resulted in large increase in number bank branches and also bank employees. Unions have often opposed computerization as it was feared computerization will affect creation of fresh job opportunities and automation would reduce the bargaining strength of labour vis-à-vis management. Whether bank branches would vanish altogether? if so by what time are the questions which can be debated but it is certain that physical presence of bank is not as important as it was in the past.

Technology & Bank Reforms

When Narsimham committee was visualizing future banking system from a global perspective it recognized the importance of technological change. The committee agreed with the Rangarajan Committee on computerization that there is urgent need for greater use of computerized systems. The Committee felt that computerization be recognized as an indispensable tool for improvement in customer service, the institution and operation of better control systems, greater efficiency in information technology and the betterment of the work environment for employees. These in committee's view had become essential requirements for banks to function effectively and profitably in the increasingly complex and competitive environment which is fast developing in financial services segment in India & abroad.

It was aware of the challenge involved in labour unions acceptance of the required changes when it observed "While trade unions have performed their legitimate function of looking after the service conditions of their numbers, they also appear to have contributed to the proliferation of restrictive practices in terms of work norms, resistance to mechanization and computerization and obstacles to rational policies in respect of promotion and staff matters" (p. 35).

Technology absorption

The technology challenge had to be met and computerization was introduced albeit slowly. The foreign banks were already ahead and challenges were similar for Indian banks whether public or private. The new private sector banks had advantage as they were creating new organizations. They were required to set up branch net work, but had an inkling of the declining importance of physical branches in the new technology environment. These new banks could get maximum benefits from creating new business organization which was divided into verticals where key functions were centralized at their Head Office, while branches were important for loan monitoring and provide a contact point for customers. In course of time alternative channels like ATM/phone Banking/Net banking were promoted to attract new young, tech savvy customers. New private banks exploited these opportunities to grow in profitable business segments. Banks had to invest in computer hardware/soft ware and training of existing staff. The pace of technology absorption can be gauged in term of expenditure of technology acquisition. It can also be gauged in terms of ATMs installed. The benefits arising from new technology are difficult to segregate given the limited information available in the public domain.

Expenditure

Technology related expenses are of different types; capital expenditures which are undertaken once in a while (purchase of hardware) while others are recurring such as annual maintenance contracts for hardware, software and & networking etc. The past data are not readily available and have entered the public domain only recently. The expenditure incurred have increased over time and account for sizeable amounts in absolute terms. Private & Public Banks have spent in aggregate terms over Rs. 12,000 crore in 2015-16. Banks spent about 6% of their operating expenses on Technology.

In the case of old private banks the proportion was higher at 10-12 % of total operating expenses, while for new private banks it was slightly low. Another way to judge the significance of technology expenses is in relation to establishment expenses. It appears that new private banks have reduced share of their establishment expenses significantly (about 37% /38%) while for both old private & public sector banks it's at around 60% . Thus new private banks seems to have got immediate benefits from new technology as they started on a clean slate unlike public sector or old private banks.

Table 4: Technology Expenditure by Commercial Banks

(Amounts in Rs. Crore)

	Cap. Exp	RE	OPEX	Total TE	Operating Expenses	TE/OE (%)
2014-15						
Public Sector	3083.92	2155.1	2912	8151.02	132085.11	6.17%
Old Private	431.47	265.64	410	1107.11	10678.55	10.37%
New Private	1131.68	932.23	133.5	2197.41	43501.34	5.05%
Total	4647.07	3352.97	3455.5	11455.54	186265	6.15%
2015-16						
Public Sector	3732.3	2304.72	2759.58	8796.6	145213.31	6.06%
Old Private	522.1	289.2	446.6	1257.56	10244.63	12.87%
New Private	1752.0	1160.56	293.82	3206.38	53501.5	5.99%
Total	6006.4	3754.48	3499.66	13260.54	208959.44	6.35%
2016-17						
Public Sector	3246.33	2406.09	3359.79	9012.21	155185.62	5.81%
Old Private	533.5	321.42	637.14	1492.06		
New Private	2238.5	1425.55	437.87	4137.92		
Total	6018.33	4153.06	4470.8	14642.19		

Source : Indian Banks Association Performance Highlights of Public Sector/Private Sector Banks.

New Channels

ATMs, POS (Point of Sale) machines and credit/debit cards offered business opportunities independent of branches. However it need to be noted that significant portion of ATM were on site which were supplementing branch operations. Table 4 gives information for two years 2012 and 2018. Impact of ATMs was pronounced in urban & semi urban areas. In any case network availability & electricity supply was main constraint on keeping the ATM network functioning. As branch operations too were computerized and hosted on a centralized platform (Core banking in common parlance) the same constraints became relevant in the context of branch operations as well. It is interesting to note that as long as ATMs were bank specific each bank need to set up its own net work. But once inter operability (one bank customers able to use ATMs of any bank) in place, you could serve your customers on other banks ATM as well. Banks could choose cost effective manner; to have their own ATMs or use other banks' ATMs. Foreign banks have in fact reduced their ATMs drastically in absolute terms. Obviously customers of foreign banks are using ATMs of other banks. Private banks have expanded their share from about 16% to 29% while PSBs

Table 5: Technology Adoption in Banks

	ATM			**POS**		**Outstanding**		**Transactions***	
	on Site	Offsite	Total	online	Offline	**Cre. Cards** (Lakhs)	**Deb. Cards** (Lakhs)	**Cre. Cards** (Rs. Cr)	**Deb. Cards** (Rs. Cr)
2012									
Public	34012	24181	58193	53860	1153	30.6345	2145.90	935	90666
Private	7251	7753	15004	195878	0	56.38956	283.69	2571	17831
Foreign	6282	16207	22489	398131	11898	89.51412	353.23	5452	27873
Total	47545	48141	95686	647869	13051	176.53818	2782.83	8958	136370
2018									
Public	82733	63235	145968	1147277	0	81.101	7117.89	7932	217158
Private	23829	36316	60145	1862736	0	236.689	1438.25	26330	87560
Foreign	214	725	939	73054	0	57.060	54.62	10416	3489
Total	106776	100276	207052	3083067	0	374.850	8610.762	44677	308207

Source : RBI Bank Wise ATM/POS Statistics

*Transactions During the month of March of the respective year

have increased their share from 60.8 % in 2012 to 70.5% between 2012 & 2018.

The new channel is susceptible to new risks; and accounting now major share of the network, public sector banks have larger responsibility to maintain safety of the ATM network. Recently in response to a parliamentary question, Government stated that about 25% of ATMs operated by PSBs are running on outdated software and needs urgent upgrade. The software is not supported by Windows. This outdated software is prone to frauds (TNN July 21, 2018) which have seen a spike of late.

Debit cards & credit cards are other important elements in the new channels. While debit cards are used in ATMs for cash withdrawals they are increasingly used for purchases at merchant establishments. As Debit cards are issued to retail depositors, PSBs have an edge. Their share in outstanding debit cards was 77% in 2012 which further increased to 82% by 2018 perhaps fallout of the Jan Dhan Accounts opened in large numbers to push financial inclusion agenda of the Government of India. Credit cards too are used for merchant transactions as also cash withdrawal but these are loans extended by commercial banks for periods till these are repaid by customers. Banks earn interest on outstanding amounts and also get commission from merchant establishment for facilitating sales. As revealed from Table 4 foreign banks had early dominance; foreign banks having 50% of cards issued in 2012. By 2018 private banks had taken the lead as they grabbed 63% of total card issuance. Public sector banks had increased their share modestly from 17.4% in 2012 to 21.6% in 2018. Credit card outstanding amounts are unsecured advances and banks charge high interest on these loans. This profitable business thus has been a field contested by foreign and private banks. Value of transactions is another dimension of business opportunities arising through credit/debit cards. Table 4 mentions the value transactions undertaken during a month & not outstanding amounts. In debit card segment PSU banks have major share of value of transactions reflecting large share in card issuance. But in credit card it's the foreign and private banks retain dominance. Card business has grown because modern technology has improved the reliability of transactions; urban life style has given a spur to its usage. Demonetization and subsequent push to digital transaction has provided a big boost. While outstanding amounts give rise to interest earning, commission earned provide a source of non-interest income. High volume of transactions gives short term liquidity though phenomenon of 'float' has lost its attraction as improvements in technology have speeded up settlement process reducing the float considerably. But card carrying accounts have generally higher balances which means higher proportion of low cost Current Account/ Saving Account (CASA) deposits, which lowers the deposit cost. It also enables the bank to offer low competitive loan rates to attract and retain good clients.

Proper use of technology development and making necessary changes in business organization has enabled private banks particularly new private banks to conduct audit exercise in a cost efficient manner. In 2015-16 audit expenses of new private banks was Rs. 18.22 crore as against Rs. 14.04 crore in 2014-15. Old private banks spend Rs. 37 crore and Rs. 35 crore respectively during this period. In contrast PSBs had to spend Rs. 902 crore in 2015-16 and Rs. 794 crore in 2014-15. While the branch net work of PSBs is large and may go some way in explaining this difference. But essential difference is auditors can visit a small number of locations where auditors have access to all transactions and documents necessary for audit. In contrast PSBs have not made any change in their business organization (Branch banking) which necessitates involving a large number of auditors to visit branches. This not only leads to enhanced cost but it also becomes difficult to ensure uniform audit quality across different branches and involves large number of auditors.

Trends in Employment

Introduction of new technology has obvious implications on deployment of labour both in terms of total numbers and skills thereof. Traditionally bank employees are classified in three categories; officers, clerks & subordinates. The composition was in favour of clerks; in 1990 clerks accounted for about half of total strength the other half was divided evenly among officers and sub staff. (Table 6).

Table 6 : Trend in Employment in Banking Sector

	1991	2001	2011	2016	CARG 1991-2016	Composition 1991	2016
Public Sector							
Officers	245565	236137	340830	419518	2.165%	26.88%	45.95%
Clerks	465068	419157	345348	334837	-1.306%	50.91%	36.67%
Sub Staff	202900	195554	169396	158653	-0.979%	22.21%	17.38%
Total	**913533**	**850848**	**855574**	**913008**	-0.002%	**100.00%**	100.00%
% share of Public Sector	93.51%	91.83%	81.41%	70.18%			
Private Sector							
Officers	16717	32102	129314	351546	12.957%	26.37%	90.62%
Clerks	34438	31905	57173	26694	-1.014%	54.32%	6.88%
Sub Staff	12243	11663	8824	9686	-0.933%	19.31%	2.50%
Total	**63398**	**75670**	**195311**	**387926**	7.514%	**100.00%**	**100.00%**
All							
Officers	262282	268239	470144	771064	4.408%	26.85%	59.27%
Clerks	499506	451062	402521	361531	-1.285%	51.13%	27.79%
Sub Staff	215143	207217	178220	168339	-0.976%	22.02%	12.94%
Grand Total	**976931**	**926518**	**1050885**	**1300934**	1.152%	**100.00%**	**100.00%**

Source : RBI Handbook of Statistics of Indian Economy

With introduction of new technology, the quality of labour inputs changed while the quantity was set to decline. Actual retrenchment is generally avoided as business expansion needs additional manpower. Moreover normal retirements can be utilized to adjust the employee strength to desired levels. New private banks had advantage as they could outsource part of the work while using new technology. Private sector banks could use outsourcing more liberally to have flexibility and control over labour cost.

In the past bank staff and employees unions were quite dominant both due to their large numerical strength as also crucial importance of workers in ensuring supply of key banking services. A reference was made above how automation and new technology has reduced the role of labour in banking operations. Also with entry of new banks and forces of competition PSBs face competition from new entrants. Thus introduction of new technology reduced the requirement of labour inputs and new jobs were created in private banks where unions were not very strong. Table 6 brings out these crucial changes in strength of bank employees and their distribution between public and private sectors. While overall employee strength rose at Compounded Annual Rate of Growth (CARG) of 1.15% since 1991 to 13 lakh the growth rates differed across sectors. In the case of public sector growth rate was about 0% in the case of private sector the growth was 7%. This is reflected in reduction in share of PSBs in the total work force from 93%to 70%.

However besides the numerical growth the composition of workforce has changed significantly and the differences among public/ private sectors are equally notable. In 1991 the composition of bank staff in public sector banks & private sector banks was broadly similar. This reflected the similarity of bank technology in both types of banks. Predominance of clerks & sub staff reflect requirement of low skilled workers (sub staff) for movement of papers & files and the manual operations which required lower skills. However, as new technologies were introduced the labour requirement changed reducing the need for sub staff drastically as networked computers reduced physical movement of papers and automation of operations. Pace of change was perhaps lower in public sector banks while in the case of private banks entry of new banks helped accelerated change. This is reflected in composition of workforce in private banks where proportion of sub staff declined to 2.5% while that of clerks to 6.8%.

Percentage of officers rose to 90%. In the case of PSBs the changes were not as drastic. Percentage of officer staff rose to 50% (up from 26.8% in 1991) but it was lower as compared to private banks. It is however important to be cautious while using crude measure of employee productivity in terms of business per employee or profits per employee. The employee productivity so measured would over state productivity in organizations which have outsourced certain labour intensive activities. While the output of outsourced employees is captured but the number of outsourced employees do not enter these computations. Thus significant workforce is engaged in providing banking services but these are not recorded as bank employees.

Financial Inclusion

Efforts are required to extend banking services to make them available to those segments of urban and rural population who were in accssible to bank branches. Banks are now therefore appointing Business Correspondent where basic bank services would be provided through kirana shops. Business Corespondent are another channel through which bank services are provided and labour used is not wage labour. True this experiment is still in early stages and too early to infer about its impact on other channels. But this could be another instance in which banks & banks services are getting infused with non-banking activities. Micro finance institutions had played an important role in extending organized financial services to people through formation of self help groups who assume collective responsibility to repay loans extended to the whole group. Though higher rates charged by MFIs are a cause for criticism, it need to be noted that cost of MFIs was mainly due to high administrative cost associated with small loans extended by them. Moreover, the high costs were still lower than costs charged by money lenders. MFIs are now under regulation by NABARD. MFIs have also been taking bank loans to supplement their resources. The efforts to extend organized finance to unbanked masses is facilitated by MFIs is an essentially private initiative. In recent years MFIs have been given bank license which enabled them to access public deposits which would help them to reduce cost of funds. Bandhan bank is such an example. Also under the differentiated bank license introduced by RBI small banks can operate exclusively in extending small ticket loans. This is yet another mechanism to allow private initiative to help achieve goal of financial inclusion. The important objective of financial inclusion will be furthered by private initiative together with PSBs. Private and foreign banks have always found it difficult to meet the targets for priority sector lending in absence of their own bank network in rural / semi urban areas. A mechanism of tradable Participation Certificate in Priority loans has been introduced which enables banks with better rural reach to give priority sector loans in excess of their target and exchange these certificates with banks having a shortfall, at a premium This too would help in increasing overall credit flows to priority sectors. These are some avenues where social goals of priority sector lending can be achieved by harnessing private sector participation through market mechanism.

Competition

The vision before the Narsihman committee was to introduce forces of competition to ensure better quality financial services are available to customers. One set of recommendations was to reduce direct controls i.e. reducing the preemptions by way of high SLR, CRR and gradual end to administered interest rate system. The other one relate to remove the barriers among different institutions in terms of products and markets. While new entrants were permitted, through issue of fresh banking licenses, it was known that it would take quite some time for new entities to gain scale & size. Commercial banks were therefore encouraged to enter new markets and products (term loans) while DFIs were permitted to offer working capital loan.

The credit authorization scheme by which RBI would clear sanctioned loans above a cut off limit, almost financial system version of industrial license system, was abolished and compulsory consortium lending was replaced by voluntary system of co-financing. As a result banks and financial institutions diversified their activities by forming subsidiaries, if necessary for regulatory reasons to enter insurance, stock broking, factoring and Mutual Fund business. This resulted in increased participants both from private sector as also from public sector entities. Several commercial banks aimed to become Universal banks which would offer full range of financial products and services to their customers.

This design of allowing new participants to increase competition for new business to the benefit of loan customers in the form of increased availability at right price has worked well in the field of personal loans or retail banking. Segments like housing loans - part of which was is included in priority sector loans- vehicles loans & credit card loans witnessed significant growth in recent years. Not only banks but housing finance companies, NBFCs have entered these segments in competition with commercial banks. This has resulted in significant increase in loans to these segments. Retail loans now account for 23/24% of total bank credit besides loans from non bank lenders. Such credit expansion has supported housing sector and auto sector growth. These loans have become standardized where not just interest rate but faster decision making and after sanction servicing becomes equally important. In such a scenario increased market participants have lead to competitive rates in these segments and also supported growth.

The outcome in the field of corporate loans was however quite different. As consortium lending gave way to more liberal multiple banking, corporate were able to borrow liberally. The result was large companies were funded by dozens of bankers and in certain cases even more. It became difficult for bankers to keep track of total borrowings of a corporate customer and even more difficult to monitor end use of funds. The seed of twin Balance sheet crisis were sown where companies borrowed heavily. As long as economy was growing companies could meet their debt serving obligations but with slow down in investment and growth impulse, strain on debt servicing capacity were visible giving way to increased incidence of non-performing loans. The Gross NPAs of SCBs have increased consistently in recent years. These have increased from 2.3% in 2008-09 to 7.5% in 2015-16. In the case of public sector banks the increase was from 2.2% to 9.3% over the same period. Thereafter partly due to Asset Quality Review by RBI, the increase in NPAs was quite swift as overall NPAs increased to 11.6% for banking sector while in the case of public sector banks it was 15.6% Net NPAs (i.e. after taking in to provisions for bad debts) the ratio was 6.1% for banking sector but 8.6% for PSBs.

While the reasons for built of NPAs are multiple which include macroeconomic & industry specific factors the consistently higher incidence of NPAs in the case of PSBs needs explanation.

While several private banks were more careful in taking large exposures in corporate lending PSBS were unable to gauge the risks. Many of them extended term loans to infrastructure segments rather heavily and when these projects suffered delays and disruptions due to policy related issues (delays in land allocation, fuel linkage or coal allocation or signing of PPAs) the risks on their balance sheets were proved to be too large. Whether PSBs were lacking in project risk assessment or they supported infra segments as these were national priorities is an issue currently under discussion. Whether quantitative growth targets were emphasized heavily in PSBs without the implications for future profitability is also a relevant issue. While factors which resulted from public sector character of PSBs are analyzed in the subsequent section, the competitive forces were certainly one factor which resulted in companies borrowing heavily and banks unable to gauge the inherent risks. Not only banks over lent during business upswing, business group could borrow from different banks even to meet their own contribution which left disproportionate risks with banks particularly Public sector banks. Ultimately while public & private sector banks were facing same macroeconomic environment and industry related risk the differences in internal working and monitoring by their managements/owners resulted in PSBs accepting larger credit risk. Lack of co-ordination among different lenders in the era of multiple banking also resulted in lack of unified approach in designing resolution packages and their swift implementation. This prompted the RBI to create a common data base of all corporate loans in excess of Rs. 5 crore which made it possible to monitor borrowings by companies. It also asked banks to form a Joint Lenders Forum (JLF) where majority decision rules were stipulated for quick decision making by all lenders. Though JLF mechanism was subsequently abolished by the RBI banks are attempting to create a similar forum through an inter creditor agreement. But both these mechanisms are invoked only when a company is in difficulty. Going forward what is necessary is similar mechanism for corporate lending in all large loans beyond certain size (say Rs, 500 crore) to ensure lending discipline on part of lenders and end use of borrowed funds by borrowers. This is because unlike real market, financial markets deal with exchange of present cash (loan) for promise of future cash (periodic interest payments and eventual principal repayment) interest rate cannot be the sole indicator of competition or credit worthiness. In such a scenario, how to allow competition without hurting financial discipline, systemic risk management capabilities and ensuring end use of funds is an issue where collective efforts from banks with enabling support from bank regulators is an issue that needs urgent attention.

Competition is also linked to technology changes. Financial system has grown significantly since 1991. But Banks seem to losing their market share slowly but steadily. Table 3 above brings this clearly. Increase in incomes have changed the demand for financial services while supply of services have expanded both due to technology changes that have increased potential for competition and supportive policy changes have helped its actualization. Public sector banks do face these wider changes affecting the industry. But their ability to meet them is also linked to, and possibly hampered, by ownership and control by Government.

Public Ownership & Management

When the performance of a sector of economy is not satisfactory a way out is seen in change of ownership. If the non performing sector happens to be in private sector its nationalization is the remedy (Insurance companies in 1950, Textile industry in 1970s). Conversely if the sick sector happens to be in public sector Privatization is the suggested remedy (Air India currently under discussion). In such cases, ownership attracts immediate attention but the role of management and Government's capacity to manage its enterprises in professional manner is generally not discussed. In many developing countries public sector was developed as an extension of the State. At times public sector was a monopoly either as a natural monopoly (railroad,) or in absence of other participants it operates in monopolistic environment. Subsequent loss of monopoly control management of Public sector undertakings in competitive environment that prevails becomes an issue. Such situation has arisen in number of industries like Telecom, Air Lines, once powerful PSUs are now in vulnerable situation. Similar is the situation in banks where banks had virtual monopoly during 1970-90.

With economic reforms programme introduced in 1991 competition was introduced in various economic sectors. It was felt that financial sector too be subjected to competition to meet the customer needs as also technological changes engulfing banking industry. Some of the recommendations of the Narsimham committee have been commented earlier. On Government's role in managing PSBs it commented "While the directed investments and directed credit programmes have tended to inhibit operational flexibility, the more serious danger to the system has emanated --- through excessive administrative and political interference in credit decision making which has seriously abridged the autonomous function of banks. Further, the directions which the bank managements receive - either formally or informally- regarding various aspects of internal management including the cases of postings and transfers of official have contributed to a measure of de-motivation of bank managements and seriously affected their ability to take innovative decisions in the furtherance of their business." (P.38) The issues facing banking sector relate both to the content of their business and the manner in which business is conducted.

The committee was candid in stating that " Central to the issue of flexibility of operations of autonomy of internal functioning is the question of depoliticizing the appointment of the Chief executive of the banks and the members of the Boards of Banks and ensuring security of tenure of the CMD". The committee believed that while formal appointment have to be made by Government they should be based on "convention of accepting the recommendations of a group of eminent persons --The other major set of issues relate to the need for ensuring a degree of operational autonomy and more importantly internal autonomy for banks in their decision making process not only in respect of credit sanctions but in all aspects of internal management. (P.35)

A note of dissent by Prof. M. Datta Chaudhary mentioned that the concept of 'self-denial' by the government of its ownership rights the Government should not appoint its officials on the Boards of PSBs and FIs. Banking Division of the Ministry of Finance as at present constituted should consequently be abolished. (While the Banking division no longer exists it has met morphed in to Department of Financial services to engulf other elements of financial system in its fold !)

While Government's accountability was recognized by the Narsimham committee but it felt that "accountability need not mean involvement in functions which are the responsibility of the Boards and management. Accountability can be ensured by a reporting system through RBI which should be prime agency for Bank regulation. Central to the approach was full autonomy with respect to internal operation of banks and financial institutions. It would require de-politicising appointments of CEO and board members and restoring to management the institution's rights over recruitment, reward and punishment. This would imply a measure of self-denial by government of its perceived right as owner to intervene in what should be the internal decision making of the institution and distancing itself from aspects of internal management and credit allocation. The committee therefore attaches the greatest importance for the early restoration of a measure of fiscal balance and continued progress towards further liberalisation of the real economy if the financial system is to play its expected part in prompting competitive efficiency in the economy. Domestic financial liberalisation and greater internal competition should form the basis for greater contacts of the Indian financial sector with global financial markets. This would help to upgrade our financial technology and give us greater access to the new and emerging modes of financial engineering. India cannot afford financial autarky any more than industrial or trade autarky. (p.143) The institution, in a sequenced manner, of a more open financial system would thus be entirely consistent with the steps being taken now to open up the Indian economy and should enhance India's ability to take competitive advantage of the increasing international opportunities for Indian Trade, industry and Finance (p. 144).

It would be fairly accurate to say that the Spirit behind the approach of the Narsimham committee was not implemented if not in letter but in spirit. The issue was taken by the P.J. Nayak committee again in 2014. (RBI, 2014). Nayak committee felt that banks should be effectively managed by the Board of the banks whether private banks or those in the public sector. While the idiom of Nayak Committee may be termed as more sophisticated the essence was not different from what the Narsiham committee had stated in 1992.

The Nayak Committee noted that public sector banks had lost their market share from 80% in 2000 to 73% in 2013 and projected further decline. It stated rather bluntly that "If the governance of these banks continues as at present, this will impede fiscal consolidation, affect fiscal stability and eventually impinge on the Government's solvency. Consequently, the Government has two options: either to privatise these banks and allow their future solvency to be subject to market competition, including through mergers; or to design a radically new governance structure for these banks which would better ensure their ability to compete successfully, in order that repeated claims for capital support from the Government, unconnected with market returns, are avoided. It felt that external constraints to which public sector banks are subjected to are not applicable to private banks. These relate to duel control of RBI & GOI on PSBs, the manner of appointments of board of directors, the short tenure of CEOs, external vigilance enforcements, compensation constraints and applicability of Right to Information Act. The Committee felt that "each of these constraints disadvantages PSBs in their ability to compete with private sector competitor." Further, it noted that "it is only after these external constraints have been addressed would it be practicable for PSBs to address a host of internal weaknesses which affect their competitiveness." The committee gave a detailed plan to empower the Banks Board over a period of time so that they could assume effective management of the respective PSB.

The action initiated by the Government in the form of project Indradhanush essentially incorporated a re-capitalization plan (Rs. 75,000 Crore) over five years and setting up of a Banks Board Bureau (BBB) to recommend appointments of whole time directors of PSBs. But subsequent steps to select all directors and delinking banks from Ministry of Finance were not acted upon. The situation has become grave as NPA ratios are even higher. All but two public sector banks have reported losses in 2017-18 and many of them for last 2/3 years. 11 PSBs are under RBI's Prompt Corrective Action Plan and face restrictions on fresh lending. Losses have depleted capital which is affecting lending capacity of even those banks which are outside PCA. Even after an emergency plan to infuse additional capital of Rs. 1.85 lakh crore over two years the capital adequacy concerns are still alive.

If it is agreed that role of banks in a modern market based economy is crucial, Government needs to think afresh what role it expects from public sector banks. Privatization is certainly not a sure shot remedy but the fact remains that functioning of PSBs leaves much to be desired. The move to take over banks & set up new financial institutions was to support investment, expand the reach of institutional finance. While financial inclusion is still an unfinished task whether government ownership is only remedy to achieve these goals is far from clear.

Banks mobilize deposits from public and government ownership has helped to retain the public confidence in stability of Banks. But ultimately safety of depositor money is linked to manner in which banks deploy these funds. If quality of banks portfolio is maintained at reasonable level that alone will ensure safety of public deposits. Deployment of deposits in profitable (or bankable) avenues becomes more complex job in a market based open economy. The post nationalization experience or experience since onset of economic reforms proves that bank ownership is not sufficient to ensure this. Even the safety of jobs of bank employees is not independent of quality of bank portfolios. Both the Narsimham Committee and the Nayak Committee indicate that if ownership is separated from bank management the performance of PSBs can be improved. As significant owner, Government need not be in "self denial" mode always but its concerns and suggestion should be expressed at Board level. The Nayak committee is more explicit in stating that "The Government should cease to issue any regulatory instructions applicable only to PSBs, as dual regulation is discriminatory. RBI should be the sole regulator for banks, with regulations continuing to be uniformly applicable to all commercial banks".

It needs to be recognized by the Government and society at large that giving loans is a risky business. Even if integrity of borrower is not in doubt changing business situation could turn some loans into bad loans. Which loans will turn bad cannot be known in advance. After the loans turn bad, to give a second opinion of the decisions of bank mangers (the Board) may be easy but is bound to affect the risk taking ability of PSB lenders. In private sector Bank Boards are able to decide which risks are acceptable and internal policies monitor the performance of individual employees. To upgrade the capabilities of bank employees is a HR function best left to Boards and management of Banks. It is not possible to devise behavioral norms which will be applicable to all jobs within a bank; leave aside to all public sector employees. If management is found to be wanting it should be changed; merely transferring them to another bank is hardly a solution. World over ownership is separated from management and public sector may not be an exception to this norm. Future of public sector institutions & Banks is often framed in terms of ownership; it's a question of giving their due role, for professional managers in Government owned undertaking be it banks or non banks.

Table 7 : Public Sector in commercial Banking

	2008	2017	CAGR 2008-17	2008	2017	CAGR 2008-17
		Public Sector Banks			**All SCB**	
Deposits	24539	80793	14.16%	33200	111139	14.37%
(Rs. Bn)	73.91%	72.70%				
Advances	17976	55572	13.36%	24769	81162	14.10%
(Rs. Bn)	72.57%	68.47%				
Branchs*	70323	117582	5.27%	79062	149151	6.55%
	88.95%	78.83%				
ATMs*		145968			207052	
		70.50%				
GNPA*	404	8956	36.32%	563	10407	33.87%
(Rs. Bn)		86.06%				
GNPA ratio	2.2	15.6		2.3	11.6%	
Profits	266	-114		427.25	438.99	0.30%
(Rs. Bn)	62.26%					
Total Assets	30219	97356	13.88%	43261	141586	14.08%
(Rs. Bn)	69.85%	68.76%				

* Data for 2017 columns is for 2018

Table 7 brings out the decline of public sector within the banking system. In the last one decade PSBS have lost their share in terms of growth parameters they are collectively making losses. Even growth rates in Business Volume (deposits, advances) are now below industry growth. In addition to various factors that are affecting bank performance it's the governance which will be a significant factor to explain the relative decline of PSBs.

Way Forward

The share of public sector banking, though declining, is still significant. If such a large segment of banking system is paralyzed for considerable time, the social cost would be immense. As the economy is showing signs of revival if credit supply is constrained by bad loan crisis in PSBs it can affect the pace of recovery. Though privatization has been recommended by industry associations and a section of economists, privatization of PSUs may not be acceptable to political system irrespective of the party in power. That's the reason why most of the financial sector reform programmes have emphasized divorce of ownership and control i.e. government could control majority ownership but management should be made operationally autonomous, creating level playing field among public and private banks. But Governments of the day have found it difficult to lose control over PSU banks. Demands have been made to strengthen the PSBs (Chandrasekhar & Ghosh, 2018) but if both politicians and bureaucrats seem to find it useful to have control over banks it is not clear how the PSBs could be strengthened?

The analysis presented above shows that inability of government to provide resource support to financial institutions at concessional rates forced them to change their business model. Moreover, risks of lending to protected industry environment were minimal. Infrastructure funding was largely through budget. Under the changed situation, such lending has become more risky and delicate affair. Government has encouraged private participation in infrastructure largely because of its resource constraint. About a quarter of stressed assets are form infrastructure segment. State owned power distribution companies continue to be in troubled state. These are unable to sign long term PPAs with plants which are ready to generate power. Declining solar power costs have a destabilizing effect on use of power from existing thermal plants. Unless these real issues are sorted out real stress in power sector will continue to affect lenders' balance sheets. Banks would need additional capital support which would enable them to give fresh loans. In the past, faster economic growth and resulting investment boom have helped resolution of past bad loan crisis. However as past experience shows capital support is necessary but not sufficient for resolution of bad loan crisis faced by PSBs.

The idea floated by the first Narsimham committee is revived again in the name of consolidation of public sector banks. However, unless simultaneously steps are initiated to improve governance in public sector banks how by merely reducing the number of banks will resolve the bad loan crisis is not clear. Moreover, formally government has refused to take any initiative asking bank boards to take a view. If bank boards were empowered and strengthened as suggested by the Narsimham committee they could have generated ideas to reorganize banks but without any empowerment to expect bank boards to decide this issue is to beg the question.

Government finds it irresistible to retain control over public sector banks because it offers the politicians & bureaucrats a tool to further their objectives; offer easy loans & write them off later. If capacity to woo small borrowers through grant of small loans to large numbers may be explained by populist electoral politics large loans to corporate clients may have compulsions of election funding. Many government initiatives such as DBT or digitization are dependent on support from banks which public sector banks offer on captive basis. As government budget is constrained bank loans are getting mentioned in budget announcements as if these are government spending program. But bank loans alone are not enough to improve the sector performance.

One of the objectives of nationalization was to increase credit flows to agriculture. Over the years the share of agriculture in GDP keeps coming down but the prescribed component of lending to agriculture is unchanged. It is often argued that banks are camouflaging loans to agri based activities as in direct agriculture category. But the broader issue is with fragmentation of land holding continue to progress unabated, direct lending will be increasingly difficult because faming on fragmented sized land is uneconomic. Unless measures such as consolidation/co-operative/contract farming are initiated, direct lending would remain limited. Banks have no role in resolving these issues. Similarly, if farmers need to diversify their activities and move up the value chain, indirect finance would be inevitable.

Similar is the case of educational loans . It could become an easy indicator of what government is doing for educated youths without directly affecting government budget. However unless government policies maintain growth momentum & pace of employment creation, loan quality is bound to suffer in course of time. If bankers are to adopt a professional approach they would become selective in terms of coverage of colleges or programmes covered, promoters' contribution, security etc. However, if these norms are to be liberalized, the eventual higher loan losses become unavoidable. Similarly bank loans unaccompanied by other elements of success (input supply, marketing support) necessary for successful farming or small business are unlikely to be successful in aggregate.

Despite various efforts, financial inclusion is still a work in progress. While a mission mode was useful in opening zero balance bank accounts, similar approach in extending loans is likely to be counterproductive. After all there is a difference between giving a grant and extending a loan. The former becomes a pure distribution problem but giving loans to borrowers who would meet repayment obligation cannot be a matter of right; the bankers need to use their discretion in a professional manner. By treating banks as an extended arm of state with attendant constraints in terms of judicial oversight and vigilance control will not serve the purpose of promoting growth and employment. As PSBs are not in monopoly position now the customers would use alternative means - the close substitute being private banks. PSBs have always provided bright trained officers to private banks. Being part of the state PSBs face restrictions in choosing their customers but they would remain the preferred choice of customers' not acceptable to private banks.

In the aftermath of Global financial crisis, several cash rich companies moved their deposits to public sector banks as safety was the prime concern. But in normal times private banks are able to entertain them by offering customer friendly products and services. Similarly, government monitoring being largely in terms of volume targets all PSBs have found easier to meet the targets by extending loans to large companies. The possibility of judicial authorities / investigating agencies questioning the credit decision in PSBs the credit sanction would become more process oriented even if insensitive to urgent customer needs. This would only mean portfolio quality tend to weaken.

What is the future of public sector banks is an important question for their depositors and employees. With sovereign support, government could always provide guarantee to all depositors at least in nominal terms. Similarly, existing employees will not face the prospects of job loss. But if PSBs do not remain professionally run business organization, new entrants will remain in search of financially attractive and professionally more satisfying opportunities. While Public sector units are losing experienced officials they are unable to replace them through lateral recruitments. Thus PSBs will continue to have access to deposits but their ability to deploy them will remain constrained for variety of reasons resulting in they take large if not undue risks. This would keep PSBs in state of permanent crisis; severity of it would get lowered, and at times would get even concealed, during business upswings but it would return with a vengeance during business slowdowns.

Alternatively Government need to decide what segment of banking services it needs operational control. For example it may like to have full control on farm lending or lending to small business. These segments involve large number of loans to small borrowers. The existing government banks could be reorganized into several small banks where government can retain managerial responsibilities. The other segments could be first put to professional management and take a view on continuance of ownership rights at a future date. But this would be quite complex exercise in operative terms. At present small banks are in private sector. But given the limit on maximum loan size, loan assistance program could be standardized in terms of limited products where eligibility could be pre defined. These products could then be offered to customers by these banks. The risks would be higher but government would be committed to bear it. This option too would involve cede operational control of a segment of bank business.

Future of public sector banks is therefore contingent on Government of India decides about delinking its ownership and allow professional managers and professionally functioning boards to have greater say in management. If such delinking is completed successfuly would get the option to divest its equity at attractive price and decide whether to accept minority but significant control. In such a situation it can even consider the option of getting in strategic investors and making an exit from some banks. But all this is in distant future. At this juncture even if government was to decide to privatize it may be difficult to find right buyers. Till then it could only reshuffle the ownership to some other entity under its control. But that is unlikely to make much difference either to bank customers or employees. If government is not willing to give up managerial control over public sector banks it would need to provide its price by providing additional equity from time to time.

True even private banks need government support. Not just global experience in 2008 but our own experience shows that the RBI had to design rescue packages for failed private banks in the past. That will continue to happen in case of private bank which are expanding its footprint. But the rescue measures would be on selective basis to those bank(s) in trouble; Unlike in the case of PSBs which are in permanent crisis; sometimes becoming apparent but always there in latent forms.

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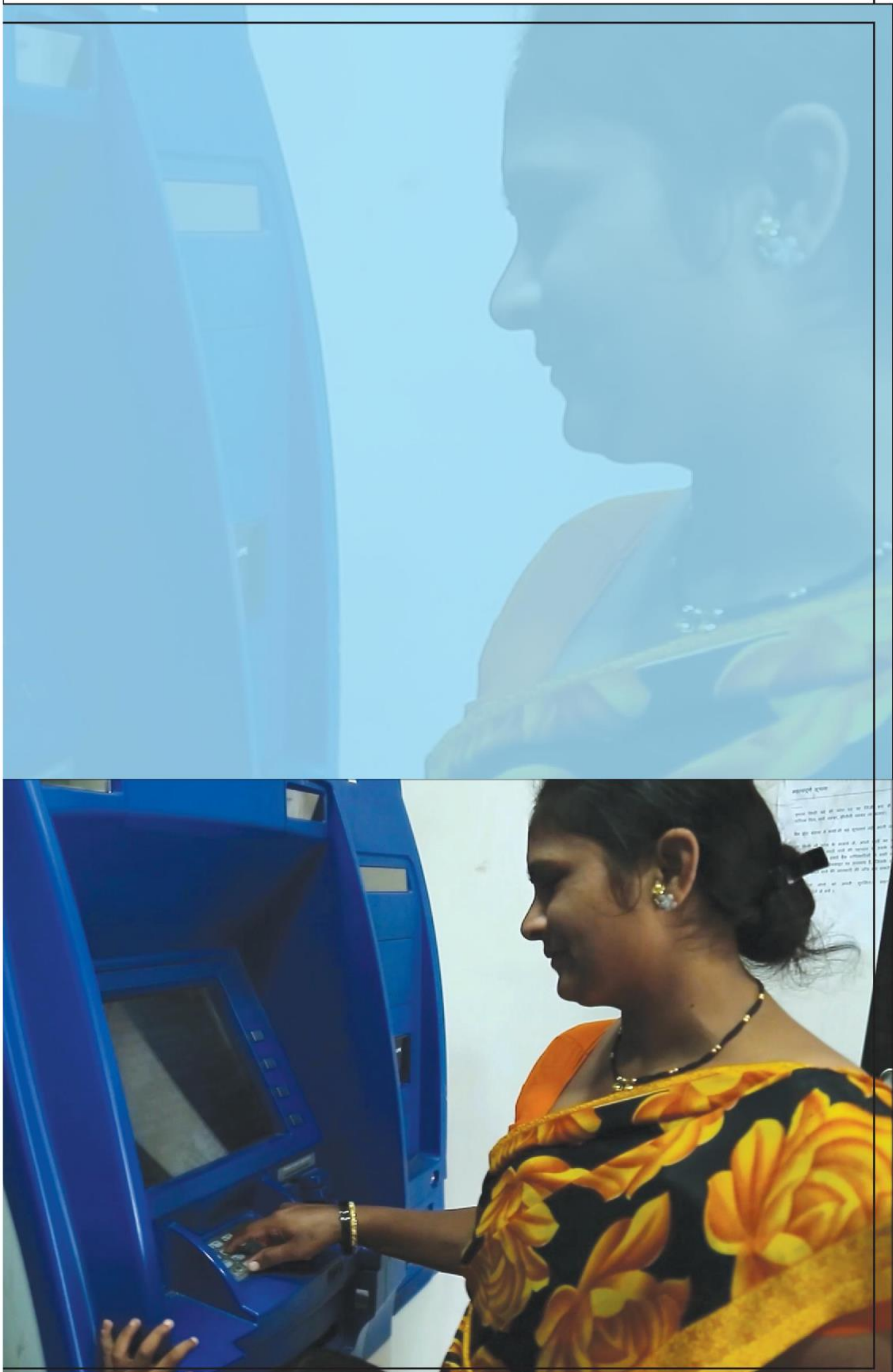

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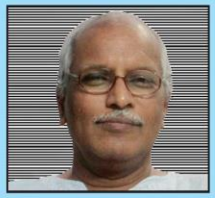

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