Alternatives provided by alternate Gyan Sangam

(HELD at New Delhi ON 26 & 27TH OF FEBRUARY, 2016)

The Gyan Sangam at Pune was attended by Shri.P J Nayak who prepared a report recommending Privitisation of Public Sector Banks and MCKINSEY & Co was Knowledge partner. The recommendations of Gyan Sangam are nothing but endorsement of Nayak Committee recommendations released by the previous UPA Govt. It is shocking that the present NDA Govt has endorsed the same and announced Indra Dhanush.

We put forward our comments on the summary of the recommendations clause by clause and suggest alternatives. We also point out what is missing and what requires attention.

Summary of Initiatives suggested for banks and policy makers

This chapter provides a summary of the discussions at Gyan Sangam 2015, which was presented to the Hon'ble Prime Minister.

Currently, public sector banks play a crucial role in the country's financial system. More than three quarters of all advances and deposits in the country are held by PSBs. They have a strong distribution network & are supported by a large, loyal customer base. They also play significant role in nation building (Figure 1)

The Indian banking sector has 5 key objectives to meet across access, efficiency, stability, value creation and growth. The sector has made good progress on all these dimensions over the last decade, though the last 3 years have been challenging. Public sector banks, in particular, face a growing performance gap vs. private sector peers – Their RoA stands at 0.5% vs. 1.6% for private banks; similarly net NPA ratio is higher - at 2.6% vs. 0.7% for private banks (Figure 2, 3)In this context the deliberations across working groups were consolidated across two transformation themes:

- Improve operations and build capability to create stronger banks (Imperatives for the PSBs)
- Level the field and enable and empower PSBs (Suggestions for policy makers).

These recommendations were presented to the Hon'ble Prime Minister.

1.1 Improve operations and build capability to create stronger banks (Imperatives for the PSBs)

Differentiate strategic focus

There is little differentiation between the offering, value proposition and product portfolio of the large number of smaller PSBs. Therefore, there may be a focus to rationalise the asset portfolio of different PSBs to target a few areas of core strength and capabilities and exit clients / segments where the banks are not strong and which are often unprofitable. In the short-term, the following steps could be undertaken by each bank:

The move appears to be a ground work for merger enter. All over the world this attemps have lead to disaster. Hence we shoud encourage all the present banks to expand and explore.

- Define it's sector/segment/product focus, including portfolio rationalisation as required
- Create a detailed portfolio re-orientation strategy (Exit/Entries)
- Implement the above strategy

OUR COMMENTS:

"What is needed is strengthening the existing Banks and branches and make them a hub of all services instead of exiting some of the business."Each bank has a unique culture and loyalty of customers. It should not be changed.

1.1.2 Build people capabilities

Reforming the talent system is an important need as several PSBs are set to face a severe shortfall in skilled talent. For this, PSBs may initiate movement in a number of areas:

- Invest in capability building and culture change.
- Create specialist cadre/function to retain and cultivate specialised talent.
- Improve on-boarding processes and training to bridge the capability gap as compared to private sector banks. New hire on-boarding should include structured welcome and induction, comprehensive training encompassing banking and technology, on-the-job learning, feedback mechanism and mentor/buddy support.
- Leverage technology for improving communication across the organisation (For instance, use internal social media groups for on-going communication and updates amongst all staff members)
- Introduce effective performance management systems and incentives by incrementally moving towards performance matrix–based evaluation and compensation structure for most of the employees in the organisation.

OUR COMMENTS:

"Leveraging technology is welcome. After all this same employees have learnt technology and moved to full computerisation from manual accounting. But one should not forget that personal interactions yield better result than emails and social media posts.

Every bank has evolved a Performance Monitoring System. It can be improved and made transparent, but linking compensation to performance in service industry will lead to disaster. After all in bank branches, the geographical area, the economy of the area and the availability of adequate staff differ. Responsibilities within a branch also differ like Branch Manager, Accountant, Field Officer, Cash Officer, etc. Rural and Semi Urban Branches differ from Urban and Metro.

What is needed is awarding teams, i.e, Branches as a whole when they perform better rather than individual incentives.

Let us learn from the failure of the Bell Curve Method. Now the experts suggest People Based Approach instead of talent based approach. i.e taking care of all employees instead of Individual Based Monetary Incentive for a talented few."

The approach based on recommendations of consultants who do not understand the Indian situation is not at all suitable. Let us have policies to suit our country.

1.1.3 Technology-enabled transformation

It was discussed that PSBs may use technology to drive operational improvement and bring efficiency. Two main initiatives were identified for the short-term:

- Set-up individual task force within PSBs to digitise top 30 processes.
- Increase mobile banking penetration through initiatives like mission mode approach for enabling people to use mobile payments, downloading mobile app as default account opening process.

In the long term, PSBs could use big data and analytics to improve productivity and customer experience through better CRM and trigger-based lead generation.

OUR COMMENTS:

"Technology is always welcome. But machines are to aid humans and not to replace them, as Peter Drucker said.

Every PSB has teams working on digitisation. If manual reports generations can be replaced with data processing at different levels, it will relieve people of unnecessary time wasted on preparing various reports."We require technology do suit our country. Vernacular Softwares, better connectivity in rural areas, Voice based Technology etc are needed for which government has to take actions

1.1.4 Strengthen risk management

As part of the discussion, it was suggested that PSBs may overhaul their risk and credit management through the following initiatives:

- Establish rule-based underwriting for retail and SME, create early warning signals and multi-channel collections architecture.
- Move towards risk based pricing (RARoC) and increase capital awareness. This will ensure adequate risk premium and efficient capital management by the PSBs.
- Create/strengthen credit bureau (Across segments such as rural, SME, corporate) by increasing inter-bank cooperation .

OUR COMMENTS

"What is needed is real action and complete revamping of the risk management system to suit our country." The government has to take initiative to amend laws and provide for the credit information bureau covering the entire nation.

1.1.5 Introduce and strengthen partners/non-bank channels

Infrastructure support (AEPS and Rupay enablement) and better management of Business Correspondents (BCs) is required to improve access and reach. Banks could set up a fortnightly review process under the respective EDs to review the performance of bank-appointed BC groups and have reward and penalty clauses for respective BCs.

Deep rooting financial inclusion to include credit and insurance products and operationalizing newly opened accounts would help to improve the financial viability of financial inclusion. Banks could use information from multiple sources to assess the credit score of people under PMJDY and appropriately underwrite loans greater than INR 5,000.

To create a profitable model for financial inclusion, banks may leverage a combination of compelling products (E.g. Pensions for unorganised workers/farmers, Variable RDs), technology (E.g. Rupay Cards, Direct benefit transfer) and partnerships.

OUR COMMENTS:

"Mobile Banking and alternate channels require vernacular software which is still not available in many languages. This requires attention. We require voice based technology.

Big data analysis is already available in many Banks. What is lacking is adequate man power to follow up with the customers.

Strengthening risk management is vital and welcome. All along, RBI has given lending norms which are followed by Banks. RBI should have a better risk analysis format. At present, with almost no security, Corporates get loan and even concessional rate of interest but small borrowers have to provide adequate security and collateral.

What is needed is adequate security and collateral for all loans or credit guarantee cover.

Inter bank Credit Information Bureau is welcomed.

Business Correspondent Model has to be stopped. Unemployed youth are being exploited with a small remuneration. There are many cases of frauds. There are also corruption charges. Our country is still under banked when we compare with other countries.

What is urgently needed is Conversion of Business Correspondents into employees and converting Customer Service Points into small branches. Lending can't be done by Business Correspondents." Financial inclusion can take place only when people have access to credit. The biggest financial inclusion was 1969 Nationalisation. Now we need more branches to cater to the huge population.

1.2 Suggestions for policy makers

1.2.1 Move from state-owned to state-linked

As a step towards more effective management of PSBs, the Bank Bureau has to be constituted, comprising professionals and eminent bankers with the responsibility to appoint and empower individual bank boards. The

Bureau could focus on ensuring diversity among board members, with representation from domain experts in risk, HR, technology etc. Board members should have sufficient tenure to deliver impact. The Bureau should also ensure proper succession planning within boards.

Individual bank boards should work autonomously and focus on driving differentiation, raising capital, defining people program and M&A strategy.

Over time, such a bank bureau could be transitioned into a Bank Investment Company (BIC), which would behave as an independent holding company to manage the Government's stake in these banks. The BIC could have the Government of India as its sole shareholder and work toward a three-fold objective in managing PSBs, to ensure that all PSBs function on commercial terms with a focus on creating shareholder value:

- Deliver sustainable value as an active investor and shareholder
- Focus on good governance
- Minimise interference with companies on operational and day-to-day management issues

In addition to this, the government could gradually reduce its ownership to below 51 per cent.

As an intermediate measure, as we move towards state-linked structure with market-based mechanisms to affect policy and pursue socio-economic goals, there could be an opportunity to achieve the same through a few 100 per cent state- owned national policy banks while divesting stake in other PSBs.

Our comments :

"Moving from State owned to State Linked is dangerous. International experiences have shown that these privatization efforts have lead to disasters and crisis.

Banking Boards Bureau is not at all needed. What is needed is accountability for the Boards. Finance Ministry Officials should be removed from Banks Boards. RBI Officials should also be removed. Banks Boards should only have experienced Bankers. There are 27 RBI officials including Dy. Governors and almost equal number of Finance Ministry Officials in PSB's Boards. What is the accountability for them? Beyond Scale-V, nobody is accountable as the decisions are taken by the committees. For the huge corporate defaults the loans were sanctioned by the Boards. Why the CMD's and Board of Directors are not held responsible? Why officer directors and employee directors are not appointed to the boards?

The recommendations are aimed at merger and acquisition and slow privatization. Let us not forget the past including the recent past. Between 1947 & 1969 the number of Pvt. Banks which failed are 553. After 1969, Public Sector Banks had taken over 23 Pvt. Banks as they were not doing well and the depositors had to be saved. What happened to Centurion Bank and Global Trust Bank?

Surprisingly the recommendations talk only about commercialisation and has ignored social role of the Banks. India is a developing country. Social lending is necessary. How will the Start Up Mission and Make In India succeed if we don't have social concern?

It is suggested that the Individual Bank Boards should work on M & A strategy also. The Mergers in many countries including ours has not lead to better performance.
The US financial crisis showed that big banks failed. Standard Chartered Bank, one of the largest Banks has declared loss. In our country Banks have a cultural link. Some are area specific. For example, State Bank of Travancore has greater loyalty from Keralites. IOB has loyalty of Chettiar's in South. Killing their identity is not good. On one side, we are offering more banks as Payment Banks, Small banks and Universal banks. On the other side, we want merger. Mergers will not help. SBI itself is still suffering due to the merger of two of its associates with SBI. So let us not attempt this.

Bank Boards Bureau and Bank Investment Company will only lead to further control by Finance Ministry which is not independent and which does not have the expertise. So let us not attempt this. This is an effort only to privatise Banks ultimately. Instead of government announcing it, it will be told BIS did it.

The next suggestion makes this clear. "Gradually reduce ownership to below 51%" How with less than 50% the Banks will remain State linked? Do we think that the private share holders will not interfere? A Stage will come where the private share holders will take total control.

Corporates like the Ambani group, Adani group have so much of loans outstandings which they can never repay. They will try to take over banks. This was the situations before 1969.Let us not bring back disaster

Again there is a recommendation that there should be few 100% state owned National Policy Banks while divesting stake in other PSB's . The authors of Gyan Sangam seems to be a totally confused lot. Policy should be for the whole country. How few Banks will cater to the socio economic policy needs of the 127 crore population? How they can reach to the villages?
What is needed is more Banks which follow the National Policy Directives. Let Postal Bank of India to operate as a Universal Bank. Again why there should be foreign investors in Postal Bank of India? Why Government can't support? Already Post Offices have huge deposits. The foreign investors want hold over it. Why not permit LIC to start a Universal Bank when Banks have been permitted o start Insurance subsidiaries. This too will ensure banking services to all.
Another suggestion is that let every Bank branch have one or two counters of Insurance Agencies including LIC and GIC to offer Insurance Coverage and Bank Employees be barred from canvassing Insurance Business which leads to mis selling."

1.2.2 Fully empower banks on HR decisions (recruitment, compensation and performance management)

In the long term, the government could empower PSBs in terms of their day to day people and various HR decisions, such as:

- Ability to offer competitive compensation (including ESOPs) to senior and middle management (scale 5+)

- Ability to hire select talent from the private sector and 10 to 20 per cent of intake through campus hiring. This will allow for access to the qualified talent that PSBs are currently missing and ensure the required flexibility in recruitment.
- Ability to implement rigorous performance and consequence management for all staff.

OUR COMMENTS :

"Fully Empower Banks on HR decisions?

Empowerment has become a most misused word.
Competitive Compensation will lead to destruction of team work. More compensation for Scale V and above is ridiculous. Majority of the employees are below Scale-V and they contribute the maximum.

What is needed is better compensation from the entry level to attract talents. After the 7th Pay Commission, clerks in Govt will be better paid than Officers in banks at Entry Level. There is a myth that Private Sector has better talent. People leave Private Sector to join Public Sector due to Security. These lateral entries will demoralise the existing employees. What is needed is encouraging existing employees by providing adequate training and appreciating their work.

Campus hiring did by banks in the past have not brought better talents. The competitive exams are better. Campus recruits often quit for better pastures. Why the Government does not recruit IAS/IPS officers from campus? Are we not getting talented Officers through the examinations?

What is needed is a Banking Recruitment Board and Salary and Promotions similar to the Central Services. The experience of SBI shows that we get the best talents through the Probationary Officer's recruitment.
There is also a need for converting the NPS into an assured pension scheme.

Performance and Consequence Management itself appears as a threat. What is needed is appreciation and not threat.

A transparent Performance Appraisal System is what we need."

1.2.3 Create an environment to protect right decisions and minimise interference:

As a step toward reducing interference and creating a level playing field, the government may reduce CVC/CAG/CBI/RTI and parliamentary committee related issues. Currently the high number of RTI requests results in significant time spent for bank officials. In addition to this, it is important to set clear timelines for clearing charges (in CVC and CBI enquiries).

OUR COMMENTS:

"Create an Environment to protect right decisions and minimise interference.
Protecting right decisions is important. What is needed is to segregate cases of malafide and non-malafide. The process of investigation and disciplinary procedure should be fast .

But reducing CVC/CAG/CBI/RTI and Parliamentary Committees role will be affecting the Industry badly. Frauds and cheatings will become rampant. It may lead to many insider frauds too.

What its needed is Accountability at all levels. Today only the lower level officials are harassed and penalised. Senior Executives always escape. They are the ones who give instructions.

The Economic Offences Wing of CBI should be strengthened and clear timeline has to be given. Similarly other agencies should be given a time frame to settle cases. There is a need for a time frame for internal disciplinary procedures also."

1.2.4 Strengthen and ensure implementation of legal framework to address issue on NPA & recovery

The following steps could help to improve the legal framework in the short term and ensure discipline:

- Strengthen DRT/SARFAESI Acts and add capacity to fast disposal of cases. Laws also need to be strengthened to ensure mandatory time-bound disposal of cases.
- Include provision of criminal liability for willful defaulters. A specific clause in IPC for punishment against willful defaulters will deter such individuals.

In the long-term, the government could:

- Avoid retrospective laws that negatively impact lenders. Impact of any new retrospective law under proposal on lenders and financial sector could be evaluated and accounted for and a standing committee could advise the government on steps needed to mitigate the impact.
- Create bankruptcy laws similar to Chapter 11 of U.S.

OUR COMMENTS:

"Strengthen and ensure implementation of framework to address issue of NPA &Recovery. The suggestions are welcome. But even after one year there is no forward movement as there is no political will." Let the government implement the suggestions and prevent Vijay Mallaya who is going to fly away. We keep waiting for action from government

5 Strengthen and simplify processes for credit insurance

In the short term, the government could focus on streamlining process and extending the scope of credit insurance. For example, CGTMSE could help more successful priority sector lending. In the long term, an Urban Infra and Housing Development Fund could be constituted similar to the RIDF based on the contribution from shortfalls in PSL achievements by banks. The corpus could help to fund long-term infra build in urban India as the RIDF does for rural India.

OUR COMMENTS:

"Strengthen and simplify processes for Credit Insurance" is welcome But diluting PSL through Urban Infra & Housing Development fund will lead to reduction in PSL which is decreasing already."

1.2.6 Eliminate market distortions

Market forces are the best way of serving India's financial needs. However, market forces sometimes fail to provide public good or meet a country's full range of social and economic objectives – when this happens, supplementary tools must be used to ensure that these objectives are met. As far as possible, India should use supplementary tools that meet social and economic objectives with minimum market distortions.

The following steps would help to reduce interference and allow market forces to operate, improving overall bank operations and increasing their profitability.

In the short-term government could:

- Eliminate debt waivers and remove interest rate caps on educational loans and agri loans below INR 3 lakh. One-off debt waivers for political considerations should not be allowed as it creates a moral hazard.
- Directly route potential subsidies to consumers while banks continue to operate on commercial terms, i.e., banks should not be forced to lend below their cost of funds.
- Revise PSL definitions through steps like expanding scope of PSL, e.g., small-ticket rural/urban infra, producer companies undertaking value chain activities, separate norms for different sub-sectors, removing direct/indirect agri classifications.
- Introduce encashable PSL certificates that could be traded between banks. In the long-term the government could:

  Set up a National Calamity Fund to face natural adversity through collaboration of central and state governments. This could be used to compensate farmers and MSE owners in the case of a natural calamity in the region. The funds can be used by these borrowers to settle their credit dues, if any.

OUR COMMENTS:

"Eliminate Market distortions?
Market forces are not the best way of Serving India's financial needs. Market always looks for higher profits.
Markets always favour the rich.
When Banks waive Crores of money to the rich why they should not waive loan of poor who are dependent on the vagaries of the climate.
Political waivers can be avoided but Banks should be allowed to waive smaller loans after thorough assessment.
Banks have a Social Cause. A small portion of loans given at Concessional rates will not affect the Bank. There has to be a cross Subsidisation by charging a little more on the rich.

PSL norms are already diluted. What is needed is bringing back the original norms so that the small men and women get some loan.

Introduction of PSL certificates will destroy the purpose of PSL itself. Setting up a National Calamity Fund is welcome but nothing has happened even after one year."

1.2.7 Enabling infrastructure for digital banking under digital India

In the short term, the following steps would help to speed up the process for adoption of digital banking and bring operational efficiency for PSBs:

- Mandate NPCI to maintain common Aadhar + Mobile + Bank account registry. Banks should extend full cooperation to achieve aspiration of 100 per cent coverage.
- Ministry of Finance and RBI to accelerate common KYC norms (which is already underway).
- Strengthen detection and action on cybercrimes.
- Accelerate internet connectivity plan under Digital India, specifically expedite in areas having unstable or insufficient telecom connectivity with collaboration of DoT.

In the long-term, the Government should continue to enable movement towards digital banking, digitise land and property records, and register SHGs to link them to the financial system.

"Enabling Infrastructure for digital Banking under Digital India, is welcome. But what will happen to the illiterates, semi literates? Hardly 10% of the Population use English. Vernacular softwares are needed. Voice Based Technology will help a lot. Even after one year the Govt & PSBS have not created a Common Digital Platform.

In short none of the positive recommendations are implemented but negative recommendations are implemented faster."

Issues not addressed by Gyan Sangam which require attention.

Encouraging Co-operatives and Co-operative Banks.

In a huge country there are only 13678 Co-operative Bank Branches. The Primary Agriculture Co-operative Societies which are large in numbers (more than 1 lakh) should be converted into branches. They are the ones who cater to the larger masses in the rural areas. There are more than 13 crore a/c holders in the credit societies. Financial inclusions can succeed through these co-operatives. The Co-operatives should be given technology support and adequate funding including refinance.

NABARD should be asked to encourage the Co-operative movement, in a larger way than it does now

REGIONAL RURAL BANKS:

RRBs are not given attention. There is an effort to privatise them. There is a bill passed by the parliament to provide 49% shares to private sector. They play a crucial role in rural development. There should be a Rural Bank of India or merge the RRBs with Sponsor Banks and allow them to expand. They cater to the rural people and have contributed to financial inclusion. Even in Jandhan, they have opened 5.4 crore A/Cs. They require encouragement and support.

Self Help Groups

SHGs have grown. Now the interest subsidy for SGSY A/Cs have not reached the SGSY groups. This bottle neck needs to be cleared. What they need is quick disbursal of credit at concessional rates. Andra Provides the same by Govt meeting part of the interest. Kerala's Kudumbashree Model has helped enterprises of women. MALAR Model at Kanyakumari has proved as a sustainable self reliant model for Empowering women. We need to study and encourage the SHG-Bank linkage Model. Provide interest subsidy and the focus on Micro Finance Institutions should shift towards direct lending to SHGs. Marketing Networks should be created by the Government.
All bank branches of all banks can be asked to provide space for marketing SHG products including pulses and millets. This will help them to develop more products, encourage organic farming and food processing. Thus is the economic upliftment will take place.

NABARD

NABARD has played a crucial role in rural development, Agriculture Lending and promotion of SHGS. NABARD requires additional funding support, additional staff and expansion to the Block Level. This will make a tremendous change in developing the rural areas. NABARD should be tax free as it was before . NABARD and other DFI bonds should be tax free. NABARD's staff strength which was 6000 has come down to 4200. It has to be atleast doubled as the area of work has expanded a lot.

Development Finance Institutions.

ICICI was started for promotion of Industries. It is a mistake that it was converted into a Bank and privatized. It should be Nationalised again to serve the masses and not the classes.
IDBI was again for Industrial Development but converted into a commercial Bank. It should be once again converted into a Development Bank. IFC had played a crucial role. Now it has been weakened. It has to be strengthened.
SIDBI has played a important role. By forcing MUDRA it is suffering. It is necessary to have atleast 5 Development Finance Institutions by strengthening what is existing and starting New ones.

IDBI - for large Industries
EXIM Bank - for Export Import
SIDBI - for Small, Micro & Medium Enterprises.

Women Bank – to encourage women entrepreneurs. (Started but now marginalized and there is no Chairman.)
MUDRA BANK- A separate Institution to refinance and guarantee Micro Enterprises.

Reserve Bank of India –

Attempts to dilute the powers of RBI should be stopped.

BRICs BANK & Asian Infrastructure Development Bank.

By availing credit from BRICS Bank and AIIB, We should come out of all loans from World Bank and International Monetary Fund whose conditions have lead to policy changes from 1991 which has not only become a stumbling block to the growth path but also has reversed the gains of Nationalisation by interfering with National Policies.

Consultants:

Consultants like McKinsey, BCG, Deloitte are not suitable for our country. We have IIMs and IITs which can give much better suggestion to suit our country. Please see comments from web on Mckinsey.

• Advocating side pockets and off balance sheet accounting to Enron, it became known as “the firm that built Enron” (Guardian, BusinessWeek)

• Argued that NY was losing Derivative business to London, and should more aggressively pursue derivative underwriting (Investment Dealers’ Digest)

• General Electric lost over $1 billion after following McKinsey’s advice in 2007 — just before the financial crisis hit. (The Ledger)

• Advising AT&T (Bell Labs invented cellphones) that there wasn’t much future to mobile phones (WaPo)

• Allstate reduced legitimate Auto claims payouts in a McK&Co strategem (Bloomberg, CNN NLB)

• Swissair went into bankruptcy after implementing a McKinsey strategy (BusinessWeek)

• British railway company Railtrack was advised to “reduce spending on infrastructure” — leading to a number of fatal accidents, and a subsequent collapse of Railtrack. (Property Week, the Independent)

McKinsey is knowledge partner for DFS. Please remove them and bring in IIMs to give suggestions if necessary.

In short Gyan Sangam did not look at the whole gamut of Banking. What is needed is a total course correction. If Make in India, Start up Mission, Digital India slogans should materialize we need this course correction immediately.

Save Public Sector Forum