

*"But yesterday the word of Caesar
Might have stood against the world.
Now lies he there
And none so poor to do him reverence."
(Mark Antony's speech at Julius Caesar's funeral)*

Is this what we want to happen to public sectors banks? Forget reverence, should they be subjected to ridicule? Should geographical coverage and providing of banking services across the income spectrum, yield ground to the market caps that banks in the private sector boast about?

Editor

WHERE ANGELS MUST NOT FEAR TO TREAD



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For years on end, the bureaucracy was the clear topper in the list of punching bags. Eyeball-seeking, agenda driven, media and the "on the one hand...on the other" economists, many of whom had not run even something as small as a teashop, competed to land more blows on officialdom, and in the process even managed to make "Babu" sound like yet another "four-letter word".

The pecking order has changed. Public sector bankers are the flavour of the season, when it comes to identifying the root cause of India's problems. As the criticism gets shriller, informed discussion and debate get drowned out. That these women and men are cut from the same cloth and do not become lesser mortals by serving in the public sector, is lost on the pundits, the prophets of doom and the rest that pontificate.

In the recent past, persons that have held high positions in the financial sector have jumped on the bandwagon, prompting the question as to how much of what they now preach, occurred to them when they held high office. To add to the excitement, the head honcho of a once venerated IT company has called for immediate privatisation of PSBs. Is it not fair to ask whether that company, with flagrant violations on the corporate governance front, ought to be nationalised in the public interest? After all, the cleaning up of Satyam was done by a government appointed Board of Directors.

Can PSBs be fixed? The short answer is 'Yes'. Is privatization the solution? The short answer is 'No'. What then needs to be done?

Let us start with the diagnosis. Asset quality has been identified as the major villain of the piece, forgetting that the low morale of the workforce, translating into indecision, is at least as worthy of attention. Admittedly, poor credit decisions have landed PSBs in a sorry mess. Those decisions did not come about because public sector bankers across the board were either clueless or collusive. Should they have been foresighted enough to anticipate that adverse court rulings would cripple the telecom and coal sectors? What impact did prolonged regulatory forbearance and the sudden shutting off of the tap, have on the present precarious condition of PSBs? If 11 of the PSBs are under Prompt Corrective Action, what does it say about regulation and, also ownership? Has action been Prompt? Has it been, or is it going to be, Corrective? Finally, is there any Action? Problem banks, such as IOB, remained headless for months while sinking under the weight of bad assets. Even more disquieting is the vacancy, for months, in an important position of Deputy Governor in the RBI. Initial reports seemed to indicate that there was no engagement between the Bank Boards Bureau (BBB) and the administrative ministry. The recent clarification that both of them were on the same page does credit to neither, since it would appear that important decisions such as the removal of the Chief Executives were within the knowledge of the BBB and it was

not felt necessary to keep the Boards informed. Treating Boards as a procedural nuisance or a substantive distraction can no longer be par for the course.

Looking on, with seeming unconcern, are the Boards of Directors. A thorough spring-cleaning is required in the boardrooms. After that is done, hopefully in double quick time, the reconstituted Boards should be given primacy in finding solutions to the problems of PSBs. The solutions must be bank- specific and time bound. The Chairpersons, with proven track records should address issues of motivation and morale by communicating with the rank and file. Simultaneously, they should identify and mentor the next generation leaders and ensure that they are optimally deployed.

As for asset quality related issues, two or three aspects cry out for action. The system must understand, and act on the understanding, that a wrong decision was not necessarily ab initio malafide. The non-legitimacy of the initial credit decision should not stand in the way of timely recovery efforts. Decision-makers should be incentivized, and shirkers held accountable for non- performance. Senior executives should not be transplanted in other banks to assume board level responsibilities.

Notwithstanding advances in technology, an inclusive India will need vibrant public sector banks, with continuity of Board and Management leadership, and a clear understanding of their role in economic development. Wishing them away a pipedream that is best abandoned.

"If Winter comes, can Spring be far behind?"

READERSPEAK – BANKING ON GOVERNANCE

"Vinita Bali, presently ID on listed entities and former MD, Britannia Industries"

"As always, very well articulated."

"SK Roongta, Former Chairman, SAIL"

"An excellent and unbiased analysis."

"Pradeep Dinodia, presently ID on listed entities and Managing Partner, SR Dinodia & Co. LLP"

"Your analysis of the problem is superb."

"EA Kshirsagar, presently ID on listed entities and former Director in Charge, AF Ferguson"

"This is truly brilliant, incisive and lays wide open the farce being played out by all."

Do let us know of any specific issues you would like to see addressed in subsequent issues.

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