ABSTRACT

Reforms in Public Sector Banks have been a matter of debate over the last two decades. In the past various committees were constituted to study the different aspects of various new policies / strategies to be adopted in Indian Banking scenario. Decisions like consolidation of Banks, infusion of Capital to cater Basel III norms, licensing new banks are still in a fluid state which requires more action part the part of the regulator and the Government.

Key words: Capital Infusion; Universal Banking; Differentiated Banking System; Capital Account Convertibility; Sustaining Reforms

INTRODUCTION

Post liberalization, much has been debated on the objectives of the financial sector reforms in India. With Basel III norms implementation on the wheels and the present stand of Government of India on Capital infusion in Public Sector Banks, has once again invited the focus on the need for reforms in the Banking system to stimulate efficiency, competitiveness and stability in financial sector which in turn shall stimulate economic growth for the country. The cut in policy rates by the regulator and the concerns expressed by the government in the lag in appropriate monetary transmission, necessary calls for further reforms in the banking sector.

OBJECTIVES

1. To analyze the Indian Banking scenario based on the reforms recommended by various committees in the recent past.
2. To analyse how these measures help the banking sector in the current environment.

DATA ANALYSIS

In the report titled “A Hundred Small Steps” submitted in 2008 by the Committee on Financial Sector Reforms, headed by the present Governor of RBI Shri. Raghuram G. Rajan, it was proposed that the Universal banking carried out by Public sector banks need to be regulated by allowing holding company structures, with a parent holding company owning regulated subsidiaries. It also suggested for setting up a Financial Sector Oversight Agency (FSOA) which should focus on both macro prudential as well as supervisory aspects of the financial system. The report emphasized the immediate need for creating more efficient and liquid markets, which included the development of corporate bond market, exchange traded interest rate and foreign exchange derivatives contracts etc.

In March 2013, the Financial Sector Legislative Reforms Commission headed by former justice B.N. Srikrishna submitted its report proposing several reforms in the financial sector. The commission suggested that financial sector regulators such as the Securities and Exchange Board of India as well as the Insurance Regulatory and Development Authority should be merged into a unified financial
agency. It also recommended that the role of RBI should be restricted to regulating banks and managing monetary policy.

In the present context of increasing trend in non-performing accounts in the banking industry, the suggestion put forth by the committee to move from the system of information sharing by institutional credit providers on the basis of reciprocity, to a system of subscription where information is collected from more sources and a subscriber gets access to validated data like CIBIL/ CERSAI reports, has proved useful to all players.

The report submitted by Shri. Nachiket Mor on Comprehensive Financial Services for Small Businesses and Low-Income Households had recommended two different types of banking structures based on functionality as Horizontally Differentiated Banking System (HDBS) and Vertically Differentiated Banking System (VDBS). Such structural reforms are important given the inability of the banking system to support a growing economy, evident from the shortage of funds for the private sector, power and infrastructure projects. Besides, Indian banks do not have sufficient penetration in rural markets. Though India has 90 commercial banks, an estimated 40% of the adult population does not have access to banking services. These facts stress the need for more structural reforms, along with the policy of Government to have “financial inclusion” and DBT through the banking system.

The option of having differentiated banks, as thought out by Reserve Bank of India, may help new players with limited capital base to focus on their core strength areas, at the same time providing the public sector banks breathing time to redefine their business strategies and gear up to face the challenges posed by the new players and regulatory prescriptions for capital requirements under the New Capital Adequacy Framework (NCAF). The public sector banks have to gradually transform their operating models, currently strewn with challenges and move towards a fitter and leaner mode of banking.

Creating global banks is another need of the hour. Consolidating some large-sized banks to create a few global ones has been in the minds of the regulator for some time. China had four banks among the global top 10 listed in the year 2013 in The Banker, the international financial affairs publication. State Bank of India, India’s largest lender, was ranked 60. Consolidation in banking sector in the country has been largely confined to a few mergers in the private sector and among associates of SBI, besides forced marriages involving banks that were at risk with stable entities. When we think of consolidation of banks, the rationalization of bank branches and ATMs in different geographies also requires a serious review.

The human resources management issues which are a natural outcome of any reforms are also to be studied. The committee appointed by RBI and headed by Shri. G. Gopalakrishna on capacity building had made exhaustive recommendations for improving the efficacy and efficiency of personnel employed at various levels by banks and non-banking financial companies regulated by the Reserve Bank. The Committee said, one of the major bottlenecks banks face is in terms of finding suitable replacement of talent that is necessitated on account of attrition, retirement etc. To tide over this issue, the Committee recommended various solutions like developing an Expert Pool internally and allowing free movement of talent within the organization for creation of a larger workforce of trained personnel. Special recruitments based on job roles and competency could also be considered. The committee also pointed out the need for alignment of human resource planning with the strategic planning to achieve strategic goals of banks and non-banks.

The Capital Account convertibility decision to be taken can also influence the financial sector reforms. Any liberalization in this front could add depth to our domestic financial markets due to increased foreign inflows and contribute to the competition in the banking sector.

The advent of digital banking has made the Indian banking industry more vibrant, alive and exiting. It has pointed out the way to a future where banks can really add value and where customers can secure huge benefits in terms of bank products and services that are really useful. It is leading to a situation
where customers increasingly see their relationship with their banks as purely transactional, leaving the door ajar for competitors hawking higher margin and advice-driven financial products. The recent debate on net neutrality has the danger of confusing anti-competitive practices with legitimate price discrimination. There’s a need to separate the two- and to appreciate the value of competition. These new developments have also thrown out a new set of challenges not only for the banks but also for the regulator.

CONCLUSION

There are certain key lessons that we need to remember from the reforms so far implemented in our banking sector landscape.

The first and foremost is the role of Government and the Finance Ministry in pursuing the reforms.

Improving services delivery of banking systems by promoting - competition, simplifying transactions, strengthening the rewards and penalties, strengthening accountability mechanisms, etc.

Last, but not the least is sustaining reforms by having a new Public Management System for the banking sector through action-oriented activities like: reinventing banking, re-engineering, revitalization of the customer services, organizational transformation, total quality management, paradigm shift in employee engagement, entrepreneurship, empowerment, results over process, downsizing, now rightsizing, lean and mean, outsourcing, steering rather than rowing, empowering rather than serving and earning rather than spending.

Observers from many quarters opine that the reforms in financial sector are not happening so fast. Then we need to understand that financial development and financial stability should be balanced. The reforms need to be put in place with appropriate regulations so that financial stability is safe guarded in the run for financial development.

SUGGESTIONS

1. To create a Banking Holding Company as recommended by the Financial Sector Reforms Committee which will help to GOI to look into the capital requirements of Banks under Basel III and ways and means to raise this capital requirement from the market.

2. Looking into the exposure, institutions like LIC of India have on the shareholding pattern in Public Sector Banks and the inter-connectedness of banks and insurance agencies in cross-selling of different products, there is a need to have unified regulatory authority for banking as well as insurance sectors.

3. Establishment of a common repository for CIBIL, CERSAI and other such institutions including the Rating agencies is the need of the hour as “correct information” on borrowers and depositors is vital in the present scenario for operational convenience of all concerned and tackle the issue of mounting bad loans.

4. Even though the country has an IT Act enacted and the regulator has been giving directions in digital banking efforts of the banking sector, it is high time an unified procedural regulations for different banking channels involving digital products to be evolved from the point of customer protection and the ease of doing transactions.

REFERENCES


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