

MISSION INDRADHANUSH: TRANSFORMING PUBLIC SECTOR BANKS

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ABSTRACT

Mission Indradhanush was launched just before the 69th Indian Independence day reforming the public sector banking system. These would include A2G steps such as Appointments, Bank Board Bureau, Capitalization, De-stressing, Empowerment, Framework of Accountability and Governance Reforms. The aim of the scheme is to strengthen the competence of public sector banks in accordance with private banks. It further focuses on increasing profitability, job creation and growth of banking environment. Public sector banks need to examine their strategic decisions like dividend policies, capital structure, capital adequacy norms and so on. Re-capitalization or infusion of capital into PSBs is its central theme. PSB's account for around 70% of total bank lendings and is saddled with NPA's. they are turning out to be impediments to growth unless the government acts fast to revive this sector. Indradhanush is definitely a bold step in right direction. Other financial inclusion programs such as Jan Dhan scheme, Mudra Yojna, Stand-up India- Start up India, increased rural penetration of banks etc. should be effectively supervised so that these programs do not further damage the asset qualities of public sector banks.

KEYWORDS: *Indradhanush, Banking Sector Reforms, NPA, RBI, Capitalization.*

Introduction

The financial sector is quiet abuzz, for the past few months, with the government declaring that in coming two years it will be pumping in 2.11 lakh crore rupees in the public sector banks in order to conform with the amendments carried out in Insolvency and bankruptcy code (IBC) and also focus upon integrating various public sector banks.

After the current government came into power in 2014; the debate regarding performance of public sector banks (PSB's) has picked up due to the crucial role they play in our economy. These banks provide loans in crucial infrastructural sectors like Power, Roads, Transportation & communication etc. But this system has been severely hit by factors such as delay in necessary permissions for projects, Policy paralysis, Land Acquisitions, Global Meltdown and so on. This has resulted in decreased profitability and thus in order to counter these challenges and focus on Reconstruction and Recapitalization of the financial sector, the Government of India has launched "**Mission Indradhanush**" on August 14, 2015 in New Delhi. It is one of the most extensive reforms taken by the government in post Nationalization era after 1970. The Seven Point agenda consists of following **A2G** mechanism:

- Appointments.
- Bank Board Bureau.
- Capitalization.
- De-Stressing.
- Empowerment.
- Framework of Accountability.
- Governance Reforms.

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Appointments

The Government has separated the posts of chairman and managing director (CMD) stating that future appointments in PSB's will have a Chief Executive Officer (CEO) discharging duties of Managing Director (MD). Also the post of Non- Executive Chairman (NEC) will be held by appointment on order.

Bank Board Bureau

BBB will be a committee of eminent Professionals and Administrators to appoint part –time members and Non-Executive Chairman of Public banks. It has replaced the Appointments Board. The BBB will be in continuous discussions with the Board of Directors of various Public Sector Banks to device action plans for growth and development of financial sector. The bureau will also monitor banks based on key performance indicators.

Capitalization

Currently, Public Sector Banks have sufficient capital structure and are in accordance with Basel III norms and RBI Guidelines. But as per government estimates, by 2019 there will be requirement of 1,80,000 crores. These estimates are based on 12-15 percent growth of banking sector. The government will be pumping in around 70,000 crore from budgetary provisions

De-Stressing

The major portion of public lending has gone in infrastructural development schemes like Power, Highways, Iron & Steel etc. But these have been stuck up due to various reasons resulting in high NPA's for banks. To overcome it, following measures will be taken:

- Project Vigilance Wing under the Cabinet Secretariat will be working together with concerned departments and ministries for prompt permissions and licenses.
- Policy Paralysis to be checked for prompt decision-making and smooth execution of projects.
- Ministry of coal, petroleum and natural gas will device an action plan ensuring long-term power supply and reforms in transmission process.
- Promoters will be asked to invest additional equity and government can explore the option of acquiring managerial control where promoters are unable to do so.
- RBI has urged all PSB's to focus on restructuring of loans already provided with sufficient flexibility to ensure repayments.

Empowerment

The government has issued a circular stating non-interference and no political motives in banking activities and all banks will be allowed to take independent decisions based on their commercial interests. Also, more flexibility is given to banks in recruiting staff.

Framework of Accountability

In order to check NPA's the government is focusing on improving performance of banks through various methods (other than DRT and SARFESI Act)

- A report by RBI in 2014 focused on identifying stressed assets early and takes steps in rescuing the borrower.
- The RBI has made a new category for borrowers: Non- Cooperative Borrowers. More provisioning will be required on bank's side while lending money to such people.
- Asset Reconstruction Company (ARC): The RBI has strengthened rules for ARC wherein they have to invest at least 15% in security receipts from earlier 5% to ensure more liquidity in assets purchased through ARC. This will help banks in improving their health from bad debts.
- Establishing six new Debt Recovery Tribunals (DRT): The central government has created six new DRT's- Chandigarh, Bengaluru, Ernakulum, Dehradun, Siliguri and Hyderabad, for recovering of bad loans.

Governance Reforms

The "Gyan Sangam" meet that was organized in 2015 in Pune focused on bringing out reforms in the Banking sector. CMD's and other stakeholders of Public Sector Banks and various Financial Institutions attended the meet. Prime Minister and Union Finance minister amongst others addressed it. The Prime Minister pressed upon the fact that banks will be provided with complete financial autonomy and will be free from undue government interference. But he also emphasized on the accountability from banks and what is expected from them.

In order to ascertain bank's financial status, focus will be on key performance indicators. The finance ministry has directed all public banks to notify Central Bureau of Investigation (CBI) about any financial frauds and to investigate these matters daily within specified time frame. In May 2015, RBI has issued guidelines to keep close check on serious frauds committed with involvement of bank officials and to rebuild banking surveillance system.

Measures undertaken to nurse ailing PSB's back to health

Insolvency and bankruptcy Code: The act came into force on 28 May 2016. The act focuses on the inability to pay back loans by Corporates, Limited liability Companies, Unlimited Liability Companies and Proprietors. The act has been recently amended to ensure that defaulters are not able to buy back the companies that they had earlier declared bankrupt which resulted in increased burden of NPA on banks.

Recapitalization of Public Sector Banks: the government has decided to refinance ailing banks to increase lending capacity and employment. For this, around 2,11,000 crore rupees is required, largely to be done this year itself. Around 18000 crore is allocated through General Budget, 1,39,000 to be raised through Recapitalization Bonds and remaining 58,000 crore to be raised through market capital.

Integration of Banks: Though the RBI is focusing on integrating various small banks into one large bank; only SBI has been merged with its associate banks and with Bhartiya Mahila Bank. The Governor of RBI Mr. Urjit Patel has stated that certain public sector banks are merged together to form a healthy bank; the Indian Banks System will become more competent as it would reduce the problem of capital and NPA.

The government is also working on an alternative system to push for integration of banks. A committee is formed consisting of Shri Arun Jaitley, Union Minister of Finance as chairman and includes Shri Piyush Goyal (Minister of railways & petroleum) and Smt. Nirmla Sitaraman (Union defence minister) as its members. This committee will give permission for integration of banks "in Principle" after discussing it with RBI. A report will be sent to the union cabinet every three months about the progress. After the approval of central government, the final plans will be put up in both houses of parliament.

The Road Ahead: Indradhanush 2.0 on the anvil

The government plans to come up with a comprehensive plan for recapitalization of public sector banks in order to ensure their total compliance to Basel III norms. RBI has also asked banks to identify top defaulters and make adequate provisioning for them. Indradhanush 2.0 will be finalized after the completion of "Asset Quality Review" (AQR) undertaken by RBI from December 2015 to December 2017. The data is being evaluated properly to release the amended program of Indradhanush 2.0 in near future.

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