GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

LOK SABHA

UNSTARRED QUESTION NO. †753

TO BE ANSWERED ON THE 14TH DECEMBER 2018/ AGRAHAYANA 23, 1940 (SAKA)

Public Vs Private Banks

†753. SHRI HARISH CHANDRA ALIAS HARISH DWIVEDI:

Will the Minister of FINANCE be pleased to state:

(a) whether the Public Sector Banks (PSBs) are lagging behind private sector banks;

(b) if so, the reasons therefor; and

(c) the steps being taken by the Government to promote the functioning of PSBs?

ANSWER

Minister of State in the Ministry of Finance
(SHRI SHIV PRATAP SHUKLA)

(a) and (b): The preambles to the Banking Companies (Acquisition and Transfer of Undertakings) Acts of 1970 and 1980 and the State Bank of India Act, 1955 commit PSBs to serve economic development in conformity with national policy and objectives, expand banking facilities on large scale particularly in underserved areas, and fulfil other public purposes. In line with the legislative intent, PSBs have played an important role in nation-building as the principal source of finance for several segments and areas insufficiently served by other lenders. PSBs have led in contributing, *inter alia,* to the following:

(i) 77.3% of rural/semi-urban branches of Scheduled Commercial Banks (SCBs) other than Regional Rural Banks (RRBs) (as on 30.6.2018, as per RBI data)
(ii) 67.1% of the business of SCBs (as on 30.9.2018, as per provisional RBI data)
(iii) 69.3% of the deposits mobilised by SCBs (as on 30.9.2018, provisional RBI data)
(iv) 69.5% of the priority sector advances by SCBs (as on 30.9.2018, provisional RBI data)
(v) 76.4% of the agriculture and allied activities advances by SCBs (as on 30.9.2018, provisional RBI data)
(vi) 67.3% of the retail housing advances by SCBs (as on 30.9.2018, provisional RBI data)
(vii) 87.51% of the number of education loan accounts SCBs other than RRBs (for financial year 2017-18, as per RBI data)
(viii) 26.91 crore (80.4%) accounts opened under Pradhan Mantri Jan Dhan Yojana.

Further, PSBs have been in the lead in lending for long-gestation projects for core industries and infrastructure, which have relatively lower financial returns but high economic and social returns.

While recognising the importance and the role of PSBs, Government has also recognised the need for greater competition to foster higher productivity and efficiency in the banking system and, accordingly, through an amendment to the Banking Regulation Act in 1993, allowed the setting up of new private sector banks. As a result, the banking system in the country today has both public and private sector banks, which fulfil different objectives.

(c): To strengthen banks and foster a culture of clean and responsible banking, Government has followed a comprehensive 4 R's approach of recognition, resolution, recapitalisation and reforms:

- Recognition of restructured standard assets as NPAs, initiated with Asset Quality Review in 2015, have declined from the peak of 6.5% in March 2015 to 0.49% as of September 2018.
- Resolution process has been strengthened by changing the creditor-debtor relationship through the Insolvency and Bankruptcy Code and debarment of wilful defaulters and connected persons, which has resulted in record recovery.
- Recapitalisation amounting to Rs. 2,11,000 crore has been initiated in October 2017 to strengthen balance-sheets of public sector banks.
- Reforms have accompanied recapitalisation through a comprehensive PSB Reforms Agenda adopted by PSBs.

A number of steps have been taken to promote the functioning of PSBs, including, *inter alia*, the following:

1. Reforms, as per the PSB Reforms Agenda adopted by PSBs—
   (i) increasing access to banking services from home and mobile through digital banking and enhanced customer ease,
   (ii) enabling easy accessibility to senior citizens and the differently-abled, through online update of pension life certificates, etc.
   (iii) instituting efficient practices for effective coordination in large consortium loans by restricting number of lenders in consortium and by adoption of standard operating procedures,
   (iv) strict segregation of pre- and post-sanction roles and responsibilities for enhanced accountability,
   (v) ring-fencing of cash flows and use of technology and analytics for comprehensive diligence across data sources for prudent lending,
   (vi) institution of transparent and robust one-time settlement mechanism with automated escalation and monitoring,
   (vii) monitoring of loans above Rs. 250 crore through specialised agencies for effective vigil,
   (viii) establishment of stressed asset management verticals in banks for focussed recovery and timely and effective management of stressed accounts,

(ix) institution and implementation of a risk appetite framework for a structured approach to manage, measure and control risk and check aggressive and imprudent lending,
(x) monetisation of non-core assets for strengthening capital base,
(xi) enabling faster bill realisation for MSMEs through discounting by banks on the Trade Receivables electronic Discounting System (TReDS),
(xii) enabling proactive reach-out to borrowers and stepping-up cluster-based financing to MSMEs, and
(xiii) developing human resources by rewarding top performers and enabling specialisation through job-families, and role based learning for executives.

2. Comprehensive checking of all accounts above Rs. 50 crore that turn NPA being checked for wilful default and fraud.
3. In-principle approval for MSME loans up to Rs. 1 crore within 59 minutes by PSBs through the 59 minutes portal (www.psbloansin59minutes.com).
4. Strengthening governance through professional and arms-length top-level appointments of Whole Time Directors (WTDs) and Non-executive Chairmen of PSBs through the Banks Board Bureau, institution of performance-based extension in WTD appointments and bifurcation of the position of Chairman and Managing Director (MD) into those of non-executive Chairman and an MD & CEO.

The steps taken by the Government have resulted in positives for PSBs, including, *inter alia*, the following:

(i) The Gross NPAs peaked in March 2018 and have begun declining with reduction being nearly Rs. 23,860 crore in the first half of the current financial year to Rs. 8,71,741 crore from Rs. 8,95,601 as on 31.3.2018,
(ii) Record recovery of Rs. 67,026 crore in the first half of the current financial year being more than double the amount recovered in the first half of last year and nearly at par with the amount of Rs. 67,107 crore recovered during the whole of the preceding financial year,
(iii) Non-NPA accounts overdue by 31 to 90 days have declined for five successive quarters, reducing from Rs. 2.84 lakh crore as of March 2017 to Rs. 1.10 lakh crore as of September 2018, reducing credit at risk, and
(iv) Provision Coverage Ratio of banks has risen steadily from 49.31% at the time of AQR to a healthy level of 67.17% as of September 2018.

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