





Summary of recommendations

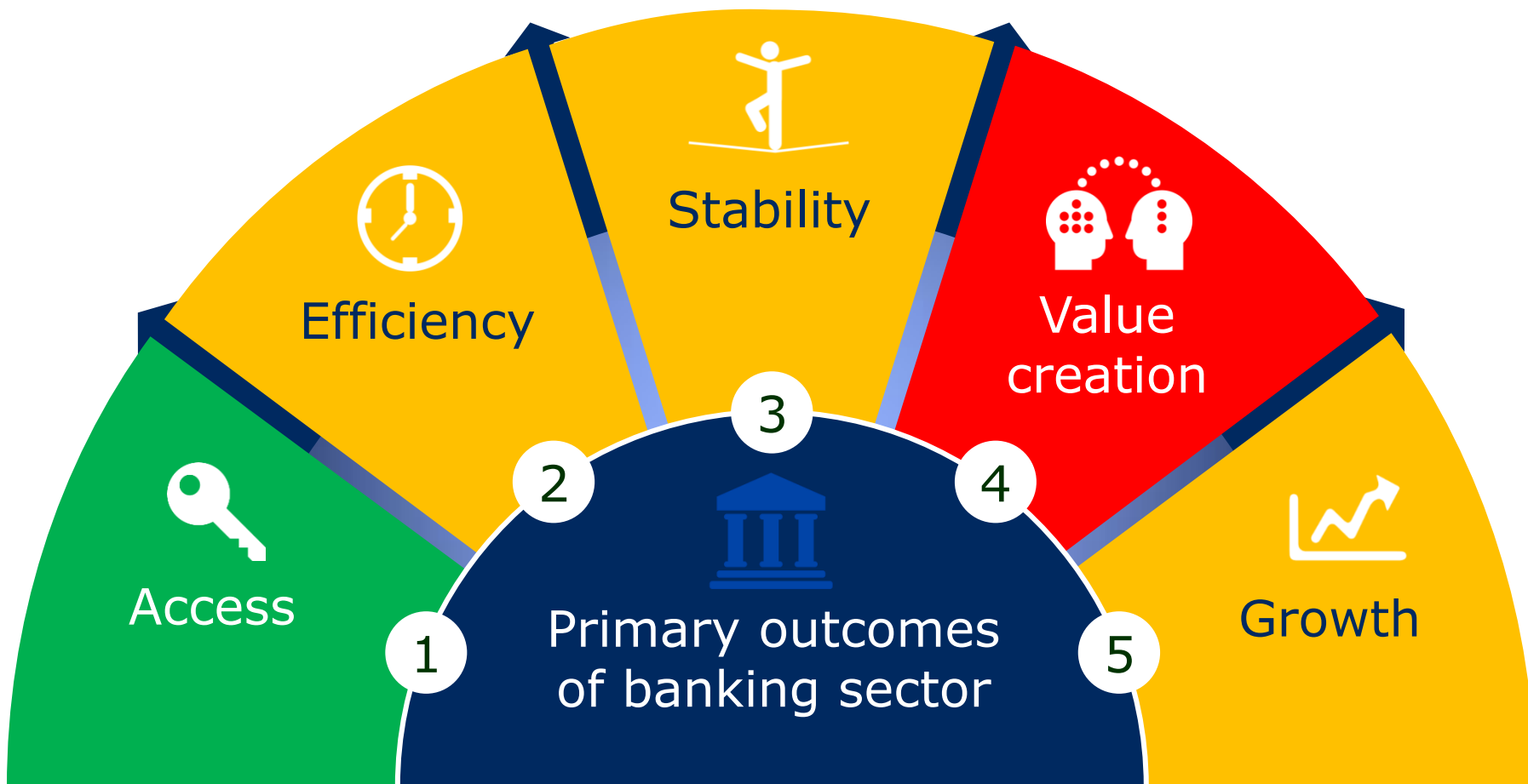
January 2015

Public sector banks play a crucial role in the country's financial systems

27 public sector banks

27 public sector banks	Drivers of business	76% of advances	77% of deposits	
	Strong nation building agenda	82% of infra financing	82% of agri-lending	33% of branches in rural areas (vs. 15% for private banks)
	Inherent strengths	Distribution 82% of branches 61% of ATM	Customer base  State Bank of India THE BANKER TO EVERY INDIAN 22 cr  punjab national bank ...the name you can BANK upon! 9 cr	Customer loyalty 80%

Sharp downward trend in the last 3 years

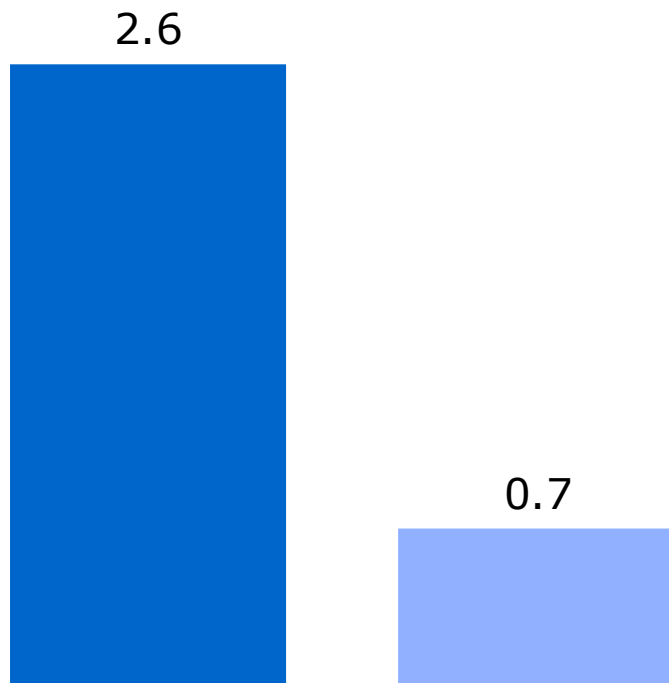


Performance gap is widening with the private sector

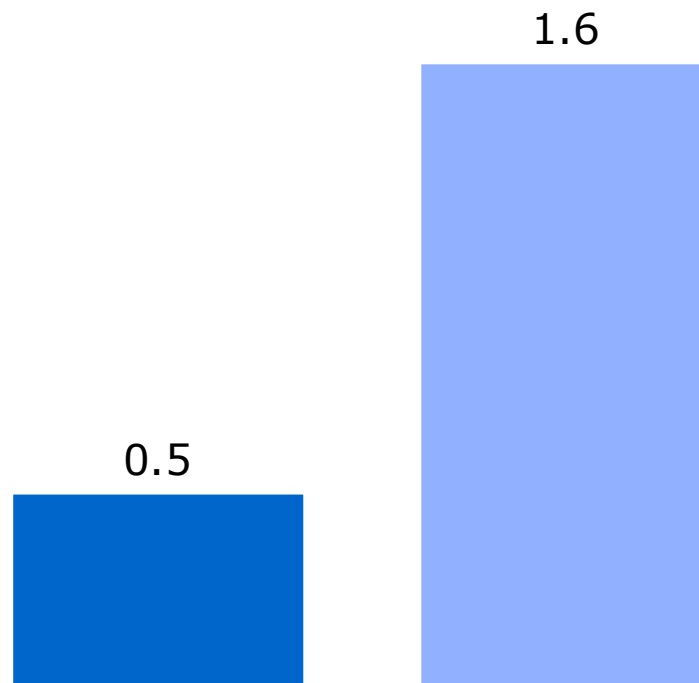
■ PSU ■ PVT

Comparison of performance of PSU and private sector banks

Lower asset quality – Net NPA/Loans outstanding
Percent, 2014

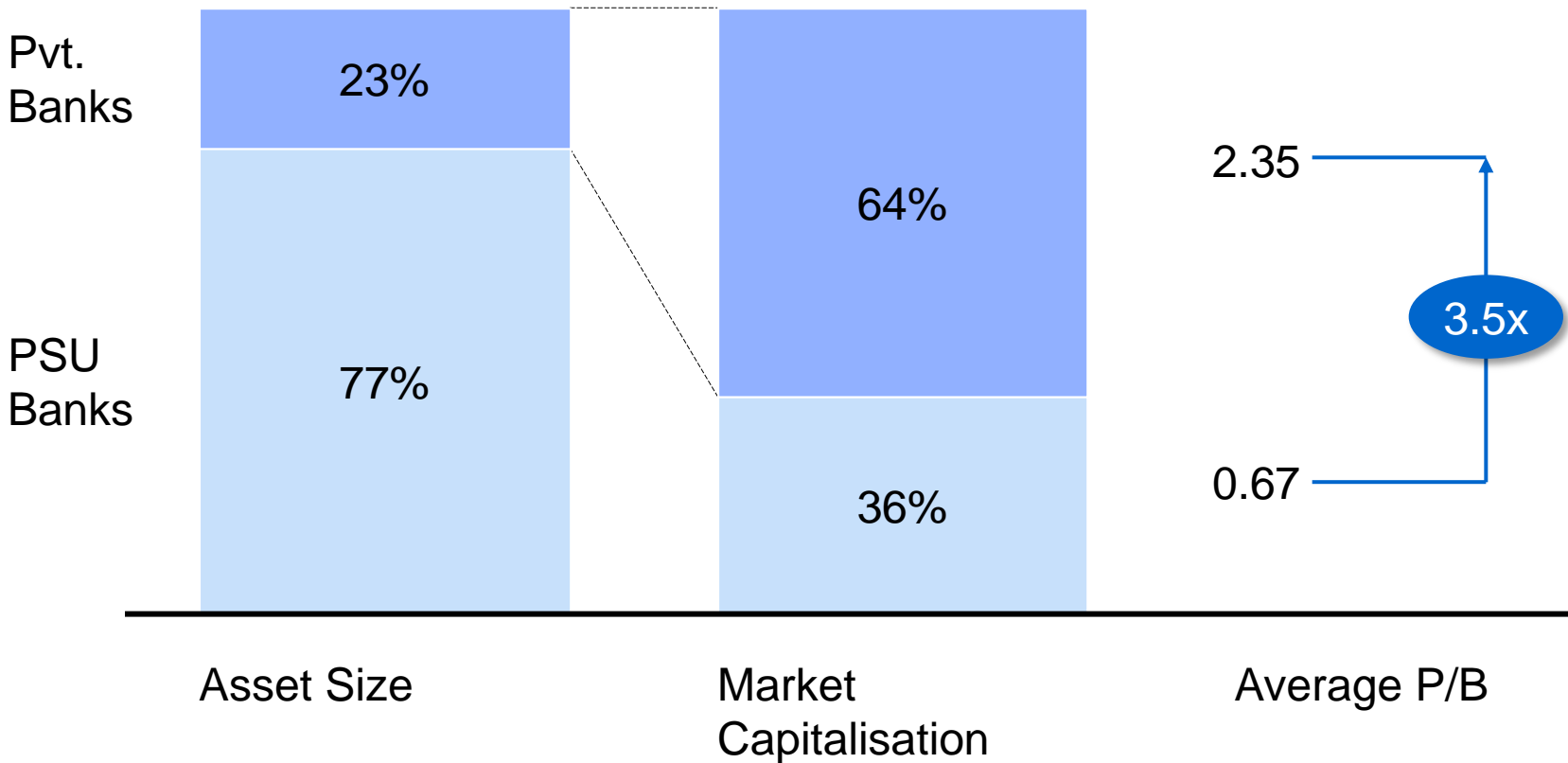


Lesser profitability – Return on Assets
Percent, 2014



Majority of PSB's at significant discount to book value

Comparison of PSBs and Pvt Sector Listed banks Percent



Several issues plaguing the 'Health' of the sector

Weakening health

- A** Increasing capability gaps in PSBs
- B** Constraints of Government ownership

Several endemic issues

- 1** Weak financial deepening and access
- 2** High intermediation costs
- 3** Instability and fragility due to intense fragmentation
- 4** Weakening of PSBs- threat to sector efficiency and stability

Synthesis of discussions – Commitment from PSU banks

1 Differentiate strategic focus

- ❑ Re-orient portfolios for small PSU banks to differentiate, focus on specific niches to build capabilities and to optimise capital

2 Build people capabilities

- ❑ Invest in capability building and culture change
- ❑ Introduce effective performance management systems and incentives

3 Technology enabled transformation

- ❑ Digitise top 30 processes
- ❑ Deepen mobile banking penetration
- ❑ Big data and analytics

4 Strengthen risk management

- ❑ Establish rule based underwriting for retail and SME, create early warning signals and multi-channel collections architecture
- ❑ Move towards risk based pricing (RAROC)
- ❑ Create/strengthen credit bureau (rural, SME, corporate)

5 Introduce and strengthen partners/non-bank channels

- ❑ Provide infrastructure support (AEPS and Rupay enablement) and better manage BCs
- ❑ Explore new partnerships to reach the financially excluded

Synthesis of discussions – 7 point reform agenda for the government

1 Move from **state owned to state linked**

- Adopt Nayak committee report: Establish Bank Board Bureau comprising professionals and eminent bankers to appoint and **empower individual bank boards**
- Set up Bank Investment Committee; transfer government investment in banks to BIC; **overtime reduce government ownership to <51%**

2 **Fully empower banks on HR decisions** – recruitment, consequence management and compensation

3 **Create an environment to protect right decisions and minimize interference:** Minimize CVC/CAG/CBI/RTI related issues

4 Strengthen and ensure implementation of **legal framework** - DRT/SARFASEI/willful defaulters

5 Strengthen and simplify processes for **credit insurance** (e.g., CGTMSE, housing)

6 **Eliminate market distortions:** debt waivers, interest rate caps (agri loans <Rs 3 lakh)

7 Enabling infrastructure for **Digital Banking under Digital India**

- A** Create Bank Bureau
- B** Bank Bureau to support creation of independent high performing boards which drive
 - Differentiated strategy
 - Capital raising
 - M&A strategy
 - HR strategy
- C** Over time transition into Bank Investment Company