

11 December 2014

The Hon'ble Prime Minister
Government of India
New Delhi.

Respected Hon'ble Prime Minister,

Sub: Suggestions for improving the performance of public sector banks.

We are writing this to you on behalf of Moneylife Foundation, the voice of Indian consumers, in response to the request from the Ministry of Finance, Government of India contained in your website inviting suggestions from the public to improve the performance of public sector banks of our country on various parameters. Your example of dedicated service to the common people of our country motivates us to write to you on this important subject of how to improve the performance of public sector banks as they can play a very critical and constructive role in considerably improving the lives of ordinary people of our country.

1. Improving employee productivity: For the last about 50 years, the banking industry has been following a system of industry-wise wage settlement. Individual banks have no say in these settlements. Often, there are strikes. Banks must get the freedom to negotiate with their own employees. This step will not only empower the banks to decide on their own how best to manage their own affairs, but also how to ensure that they get the best out of their employees in the best interest of the bank.
2. Improving customer service: A robust and transparent charter of bank customers' rights with built in compensation for non-compliance by banks will greatly improve customer service in banks, which, in turn, will help bank to improve their overall business. The charter of customers' rights must specify in clear and unambiguous terms the rights and responsibilities of both banks and their customers, coupled with stringent penalties for non-compliance.
3. Improving trust and confidence: In a large country like ours with a huge middle class population, who have hardly any knowledge about the intricacies of banking operations, it is necessary to ensure that all basic banking services are made available free of all charges, which will not only improve public trust and confidence in the banking system, but also help banks to improve their low cost deposits like current and savings deposits, giving a shot in the arm to their profitability as well.
4. Improving NPA management: PSBs go sick, but the promoters remain wealthy and healthy, and they force the banks to give all sorts of concessions, which they do not deserve. Simply declaring them as wilful defaulters, does not solve the problem for the banks. A special insolvency law should be immediately enacted by which all those who borrow from banks beyond a certain amount should be subject to a legal stipulation that mandatorily declares the promoters and those in management unfit to continue in management, if the borrower goes into negative net worth in any financial year. Such companies should be considered bankrupt and the promoters should not be allowed to continue in management, but automatically handover the company to administrators appointed by the lending banks. The administrators should auction the entire company and its assets to the highest bidder within a period of say six months.
5. Improving governance: In order to improve the performance of PSBs, it is necessary to bring them under the Companies Act, 2013 and make them accountable to the public shareholders. Today, they are only accountable to the majority shareholder, and the AGMs are a mere farce. They bend backwards to appease the powers that be and follow hackneyed policies to suit the political bosses.

6. Placing inspection rating of banks by RBI in public domain: The RBI conducts annual financial review of all banks every year, but their reports are kept confidential, and their findings and the ratings allotted to banks are never published. Those banks who continue to be rated poor must be pulled up and made answerable for their poor performance, which is, many times, kept under wraps giving rise to apathy and inefficiency at all levels. The banks' performance under all the parameters must be made known to the customers of banks to keep the managements of banks on their toes.

7. Making bank auditors more accountable. Window-dressing of balance sheet of banks is most common in our country and auditors are a party this. The most common occurrence in this sphere is fudging the balance sheet just before the retirement of CMD of the bank to show improved performance of the bank, while the subsequent quarterly figures under the new CMD show a totally adverse performance. Now, that the appointment of auditors is proposed to be delegated to individual banks, the chances of such financial jugglery taking place will be much higher, unless drastic steps are taken to ensure that the auditors are made accountable for such large variations in key parameters every quarter and shown the door, if found to be hand in glove with the management in such grave financial misadventures.

8. Avoiding dual control: The RBI is the banking regulator. But the PSBs have a super regulator in the Finance Ministry. While the Central Govt. as the majority shareholder is represented by a Finance Ministry official on the boards of PSBs, it is preposterous to issue separate directions which are outside their domain, which put the PSBs in a bind and undermines the authority of RBI

9. Eliminating political interference. PSBs are subjected to severe political influence. It is necessary to issue strict instructions to PSB chiefs that they too should insist upon written instructions from all those in power and act upon them only if they are in accordance with rules and are in the best interest of the banks concerned. This would go a long way to improve the functioning of banks and serve the interest of our nation admirably.

We hope you will consider these suggestions for improving the functioning of public sector banks giving a boost to their performance and enhance their reputation as institutions worthy of public trust and confidence.

With our respectful regards,

For Moneylife Foundation,



Sucheta Dalal,
Trustee, Moneylife Foundation



Debashis Basu,
Trustee, Moneylife Foundation

Note on Moneylife Foundation

Moneylife Foundation is a not-for profit organization dedicated to the cause of financial consumers. We have a membership of over 30,000, who benefit from free seminars and workshops. We will be shortly completing five years of dedicated service to the society at large, having held more than 230 free seminars