Indradhanush: Next Generation Reforms in PSBs

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Reforms in the banking sector in India have been continuous since 1991. As a result, the diversity and pace of transformation has been reinventing with mounting challenges. While the first phase of bank reforms focused on integrating internationally accepted prudential norms, the next phase witnessed a new wave of technology orientation and competition from new generation private banks, thereby setting finer quality and pricing benchmarks. While the banks were on a progressive path, the ramifications of the global financial crisis arising out of the fallout of Lehman Brothers in 2008 and the consequent downturn of the economy created yet another phase of asset quality turbulence.

Since Public Sector Banks (PSBs) are more actively involved in building the economy, lending to infrastructure has been mauled under the weight of the surging non-performing assets. The piling stressed assets in PSBs has brought the divide between them and their private peers more into glaring focus, creating pressure on profitability. Moreover, the introduction of Basel III norms in 2013 brought the diminishing capital of PSBs under greater challenge and the government, hitherto providing doses of capital infusion, had to pump prime funds to build its base. These seminal challenges, along with increased commitment for capital infusion, has brought a series of reform packages under the banner of 'Indradhanush' which has the potentiality to resurrect the PSBs, if implemented in right spirit at all levels. This paper seeks to discuss the implications.

In a bank-led economy, the diverse structure and sufficiency in terms of asset size and banking network is more important for efficient financial intermediation in a country with wide geographical and cultural diversity. Banks should also be capable to ensure that the recent thrust on financial inclusion is taken to its logical end in connecting the community with banks, so that enterprise can be developed

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The views expressed in this paper are of the author.

at the grassroots level of the economy. It can be recalled that keeping the indispensability of an adequate and efficient banking system, bank reforms were initiated way back in 1991-92 on the recommendations of the first Narasimham Committee Report, 1991.

The Narasimham Committee - II (1997) and subsequent mandarins of bank reforms kept on adding value to the reform process. Consequently, a host of reform measures have been implemented, well-calibrated to suit the development of prudent banking practices in India in sync with international best practices. In addition, implementing the Basel Committee Standards have been set out in different frameworks known as Basel - I (1992), Basel - II (2004) and Basel III which began from April 1, 2013 and is scheduled to be implemented gradually by March 2019. These seminal reforms have transformed the banking space from a morbid state to an internationally competitive vibrant and modern state. The process of reform-driven transformation is a progressive journey in a state of continuation.

These reform measures put together have strengthened the prudent banking system, adding a thrust to quality and diversity of banking service. The critical catalyst of change was the debut of private banks in 1993. It has opened up a new chapter in the annals of banking history in India, setting a new benchmark in the standard of banking services. Their preponderance led the PSBs to move to a higher technology plane that brought into play a core banking system. It enabled PSBs to provide anytime/anywhere banking. Such centralised technology has proved to be a multi-dimensional enabler that has helped PSBs to provide an extensive network of ATMs/internet banking/mobile banking and a range of diversified products on the lines of private banks. In the process, the PSBs coped well with the reforms to bring about changes in the quality and range of services in a bid to defend their market share. The PSBs became agile and improved their commitment to compete with other banks in the market. Thus the PSBs continued to mark their dominance in better supporting the broader cause of economic growth, sometimes even moving beyond the confines of 'pure commercial instinct'.

Significant Role of PSBs in the Economy

Even in the milieu of bank reforms and opening up of the banking sector to private players that created new wave of challenging competition by adding a number of banks, PSBs have continued to maintain a lead role in supporting socio-economic growth. Such a strategic role played by the PSBs in furthering socio-economic development coupled with their wide presence in the hinterland provides them with a unique positioning in the Indian banking space. Reiterating the role of PSBs, Dr Raghuram Rajan, Governor, RBI, in his foreword in the latest issue of 'Financial Stability Report' of June 2015, has said, "While India's banking landscape is poised to change with the introduction of new types of entities like 'small finance banks' and 'payment banks', the role of public sector banks will continue to remain substantial in terms of supporting the needs of a sustainable and equitable economic growth. In this context the continued stress on asset quality of PSBs and consequent pressure on capital adequacy is a matter of increasing concern".

Moreover, as on March-end 2015, PSBs accounted for the largest share of aggregate deposits, working out to 72.9 per cent and gross bank credit of 71.6 per cent market share in the banking business of the country. Thus, PSBs still continue to be the spine of the banking system that constructively supports various facets of government priorities in steering economic growth. Understanding the significance and shortcoming in PSBs, the RBI appointed a committee led by Dr P J Naik to review the Governance of Boards of Banks in India. Many of the committee's seminal and far-reaching recommendations, more particularly pertaining to the functioning of PSBs, are set to be implemented in a calibrated timeframe to make them more sustainable and efficient.

Expanding the Banking Network

In addition to the currently operating 146 banks with a network of 1,27,343 branches (June 2015) and 1,83,887 ATMs (May 2015), the banking network is set to become more vibrant when new entities start operations. The entry of the new edition of private banks such as Bandhan Bank, IDFC Bank (to be opened in October 2015), and the future debut of payment banks and small finance banks along with reducing the gulf between banks and non-banks are set to increase competition in the banking space. In fact, the Committee on Comprehensive Financial Services for Small Businesses and Low Income Households, headed by Dr Nachiket Mor, has advocated the setting up of such specialised smaller versions of banks to hasten the outreach programme.

As a result, an increasing number of banking outlets in the small format is set to inundate the market in the future with a host of value-added products/services with finer pricing. In the changed operating environment, PSBs may have to make significant efforts to defend their market share and protect their mighty status. This will need a combination of efforts including revamping their business models, operating architecture, application of technology and building more robust performance management systems to induce people to contribute better. In the given diversity of activities, making the performance management system measurable is very challenging and linking its incentives to it is even more challenging.

Key Challenges in PSBs

Among many others, PSBs in particular have been confronting several key challenges compared to their private sector peers, which can be summarised as under:

- Diminishing overall profitability.
- Asset quality - faster slippages and slow recovery of NPAs.
- Flight of human talent - faster pace of retirements.
- Inadequate talent management systems.
- No well-aligned performance management system.
- Cultural gulf between the existing senior staff and large chunk of newly inducted employees because of large-scale exodus of retiring employees.
- Increasing generation gaps among various sections of employees.
- Changing customer profile and their expectations from banks.
- Augmentation of more qualitative capital to implement Basel III standards and to continue growth of asset size.
- Rising regulatory cost due to legacy issues.
- Lack of continuity of leadership.
- Rising cost of technology/replacement of legacy technology.
- Low propensity of PSB customers to use technology-led touch points.
- Inducing institutionalized flair for marketing.
- Greater accountability for performance.
- Dual regulatory regime - government as owner and the RBI as regulator.
- Rising costs of increasing social banking.

These are some of the representative challenges faced by the PSBs to improve performance comparable to their private peers, and they are not exhaustive. There are many more inter-connected challenges which need to be addressed. Tackling each such challenge requires the joint and massive coordinated efforts of all stakeholders. In some cases, the issues are so deep-rooted that it may take several years to bring about a cultural shift. In order to accelerate the notable reforms of PSBs, the Department of Financial Services (DFS) as a key stakeholder has been guiding for quite some time. The DFS held 'Gyan Sangam', a conclave of CMDs/EDs of PSBs presided over by the prime minister and the finance minister in January 2015 to discuss threadbare the challenges and actionable policy issues.

DFS has now proposed to not only infuse additional capital in PSBs to improve their operational ability to lend and manage risks better but also to bring about further changes. It has brought out a new framework called 'Indradhanush', a spectrum of seven initiatives that lays stress on strengthening the vital parameters of the PSBs. Before the impact of the 'Indradhanush' reform project meant for PSBs is discussed in detail, a look at the trends of the performance of each group of banks can help focus on their performance.

Indradhanush – New Reform Measures

The announcement of the much-discussed seven-pronged strategy known as 'Indradhanush" to revamp PSBs is a well-articulated roadmap to transform them into vibrant financial intermediaries capable of demonstrating better professional acumen. The initiatives vouch for the grit and determination of stakeholders to resurrect the banking system by triggering reforms in PSBs to make them more result-oriented organisations. Further, the recent policy discussions are centred on more seminal changes to *(i)* scale down even the stake of the government to 33 per cent from the current threshold of 51 per cent and *(ii)* consider the consolidation of weak PSBs with stronger ones, if found to perpetuate positive synergies in such mergers. Though during the post-reform regime PSBs have gained better efficiency levels and are able to compete with many of their private peers, they still need to attain higher levels of performance to stay competitive in the changed banking scenario.

Performance of PSBs

In every forum it is reiterated that the role of PSBs continue to assume significance for transmission of monetary policy actions and to support the growth of the economy in the desired direction. In this context, according to the Ministry of Finance, Government of India, it is highlighted that "The PSBs play a vital role in India's economy. In the past few years, because of a variety of legacy issues including the delay caused in various approvals as well as land acquisition etc., and also because of low global and domestic demand, many large projects have stalled. Public sector banks, which have got a predominant share of infrastructure financing, have been sorely affected. This has resulted in lower profitability for PSBs, mainly due to provisioning for the restructured projects as well as for gross NPAs."

As a result of many of the challenges and peculiar operating circumstances, the performance of private sectors banks has been known to be better than PSBs. The reasons could be many. The business model, the reporting relationship, the independence provided to vertical heads, incentive structure, remuneration pattern, performance management system, the thrust on result orientation, and the accountability of people to the last mile in performance, etc., to name a few. The institutionalised awards and performance recognition system, Equity Stock Options (ESOPs) and many more such factors might also have created differentiation among the two sectors.

Can such a result-oriented ecosystem with the prevailing staff composition in PSBs be replicated or not is an issue open to debate. There is no template-driven easy answer to these issues. They need granular analysis and painstaking efforts to bring further transformation among PSBs. But the proposed spate of reforms delineated in the package of Indradhanush could gradually infuse new lease of efficiency among the PSBs. Many of the solutions mooted in the package have been well-customised and aligned to the challenges faced by PSBs. The hybrid competencies of private sector enterprises and PSBs can be combined together to bring out the best of both for deriving synergy. Such integrated efforts with the working pattern of PSBs can trigger the change needed to reform the banking space.

Comparative Performance of Major Sectors of Banks

A quick look at some of the key performance indicators of the two major groups of banks will reflect the trends of performance of private and public sector banks. The data of the past five years will be representative of the movement of performance indicators.

Table 1

Profitability Ratios

(Expressed in Percentage)

SNo	*Parameter*	*Bank Group*	*FY10*	*FY11*	*FY12*	*FY13*	*FY14*
1	Net Interest Margin (NIM)	PSBs	2.29	2.77	2.76	2.57	2.45
		PvBs	2.90	3.10	3.09	3.22	3.31
2	Ratio of Non-Interest Income to Total Assets	PSBs	1.19	0.99	0.89	0.87	0.87
		PvBs	1.87	1.64	1.62	1.62	1.67
3	Cost of Deposits	PSBs	5.68	5.12	6.36	6.63	6.47
		PvBs	5.36	4.97	6.36	6.72	6.40
4	Return on Advances	PSBs	9.10	9.09	10.31	10.08	9.69
		PvBs	9.89	9.65	11.06	11.52	11.24
5	Cost of Funds	PSBs	5.35	4.89	6.06	6.27	6.14
		PvBs	4.83	4.56	5.84	6.12	5.86

Source: Statistical Tables Relating to Banks in India 2013-14, Reserve Bank of India.

Among the comparable performance parameters, the Net Interest Margin (NIM), an important indicator of PvBs, is higher in the last five years compared to PSBs. It marginally increased from 2.29 per cent to 2.45 per cent for PSBs whereas it distinctly moved up from a high of 2.90 per cent to 3.31 per cent for PvBs during the same period. Higher CASA ratio and better CD ratio has helped these banks to scale up the interest income. The ratio of non-interest income to total assets ratio stands at 1.67 per cent in March 2014 for PvBs as against a low of 0.87 recorded by PSBs. It shows that PvBs could earn better fee income contributed by the treasury and due to their approach of taking more exposure in non-SLR investments, which has better potential to earn fee income. The risk appetite of the PvBs is distinctly much higher than their government-owned counterparts. PSBs have to move away from the traditional sources and scout for alternate sources to earn fee income. The capability of PSBs to earn fee income is thus far less than PvBs.

Similarly, better business mix could lower the cost of funds for PvBs. Their cost of deposits has been lower due to better CASA growth and yield on advances has been far more than PSBs. It reflects upon the ability of PvBs to eye more profitable business, balancing their risk management and in the process optimizing yield. In each of these parameters, PSBs could not keep pace with their private peers more on account of the difference in their operating ecosystem. The divide clearly explains that the whole approach of its people towards business is different. Seminal transformation is called for to put PSBs on a similar performance plane.

The Next Generation of Bank Reforms

It is a welcome move to appreciate that mere infusion of capital from time to time will only be symptomatic treatment and far more structural changes will have to follow to transform the PSBs. On the recommendation of Dr P J Nayak Committee on Corporate Governance, rightly the position of MD and CEO is separated from Chairman. The hybrid approach to bring a right fusion between private sector talent and public sector experience can blend the competencies to bring the kind of synergy needed to transform the performance matrix of PSBs to gradually elevate the performance levels. The effort is reinforced with the formation of *(a)* Bank Board Bureau (BBB) for selection of key people, *(b)* easing the stressed assets of PSBs, *(c)* allowing autonomy for lateral recruitment of talent directly from the market, *(d)* streamlining vigilance apparatus to support performance and enforcing quick action against errant employees, *(e)* moving towards performance-based capital infusion *(f)* opening up employee stock options for higher management *(g)* formation of bank holding company, and *(h)* eventual strategic consolidation.

Time lines have been fixed for many reform initiatives that speak about the seriousness to implement the seven-pronged strategies to revamp the PSBs. Moreover PSBs are known to be the change agents of socio-economic transformation. They are the emissaries to implement government-sponsored lending schemes in villages, take up the PMJDY scheme on a mission mode, facilitate Direct Benefit Transfers, etc. Now, the Independence Day announcements have cast a different set of responsibilities to develop grassroots' level enterprise. Balancing these different forces of functionality may need PSBs to undertake some more socio-economic lines of business that could impact future profitability. Let us examine how each initiative outlined in the Indradhanush framework is going to gradually bring about some positive change in the functioning of PSBs.

S No	Proposed Change	Likely Impact on the Working of PSBs
1.	**Appointments:** The government decided to separate the post of Chairman and Managing Director by prescribing that in the subsequent vacancies to be filled up the CEO will get the designation of MD & CEO and there would be another person who would be appointed as Non-Executive Chairman of PSBs. This approach is based on global best practices and as per the guidelines in the Companies Act to ensure appropriate checks and balances. This also is in line with Dr P J Nayak Committee Report on Corporate Governance.	This change is set to separate the operational aspects of the banks distinct from articulation of vision of the banks. The independence of thought process of Chairman and Board in forming a vision for a bank without bringing operational constraints into play will be able to lay a concrete long-term roadmap for growth. Since the position of Chairman is non-executive, there will be no constraint of retirement and can be 'age neutral' that can lend continuity of business aspirations while according full freedom to the CEO to drive operations in line with the vision of the bank articulated by the Chairman and Board. It therefore, does not limit the strategic thought process of the Chairman and Board. Hitherto a whole-time CMD used to be engrossed in operational aspects on one side that used to truncate the broad vision, perhaps hampering the implementation of medium and long-term strategy. Now the 'doer' and 'thinker' will have independence without impacting one another.
2.	**Bank Board Bureau (BBB):** The formation of the Bank Board Bureau (BBB) is to have a body of eminent professionals and officials which will replace the present Appointments Board for appointment of Whole-time Directors as well as Non-Executive Chairman of PSBs. They will also constantly engage with the Board of Directors of all the PSBs to formulate appropriate strategies for their growth and development.	It is intended to bring about qualitative change to the composition of the Board. The professional Board will be able to take an independent view on the selection of key personnel for the bank. The MD, CEO and Board members will be selected by a professional body following specific methodology. The current methodology of identifying Board members of PSBs by the present selection committee will be dispensed with. The rigour of 'fit and proper' criteria, minimum qualification, experience in the field, and knowledge of banking will be some of the key factors in selecting people for the Board. Such body of professionals should be able to share their wisdom and provide sustainable leadership to the banks.

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3.	**Capitalization:** In order to adequately capitalize all the banks and to keep a safe buffer over and above the minimum capital adequacy norms of Basel III, capital assessment has been made for this year and also for the next three years till FY 2018-19. Excluding internal profit generation which is going to be available to PSBs (based on the estimate of average profit of the last three years), the capital requirement of extra capital for the next four years up to FY 2018-19 is likely to be about Rs.1,80,000 crore. This estimate is based on credit growth rate of 12 per cent for the current year and 12 to 15 per cent for the next three years depending on the size of the bank and their growth ability. Out of this amount, capital of Rs.70,000 crores will be provided by the government to PSBs till FY2018-19.	With the advent of Basel III capital norms which were implemented from April 1, 2013 by the RBI, banks had several challenges to tackle such as: *(a)* additional capital for maintaining 2.5 per cent of capital conservation buffer, *(b)* capital required in normal course of business to grow the risk-weighted asset size, and *(c)* Raising the quality of capital in the form of Common Equity Tier (CET) - I from the current level of 2.5 per cent to 4.5 per cent. The current level of capital in banks will not be able to comply with the Basel III norms. Hence, banks will require additional capital. The government therefore is proposing to infuse capital to the tune of Rs. 70,000 crore in a span of four years. Out of the estimated capital needs of Rs. 1,80,000 crore, banks will have to access Rs. 1,10,000 crore from the market and partly fund it with the ploughing back of profits. Looking at the performance parameters in terms of Earnings Per Share (EPS) and Return on Assets (ROAs), banks may find it difficult to access capital from the market. But the relief in the form of infusion of capital by the government will go a long way in diffusing the capital problem of the PSBs. This will also infuse confidence among the investing and rating community that in turn may help PSBs raise capital from the market. It is indeed a confidence booster for PSBs.
4.	**De-stressing PSBs:** The infrastructure sector and core sector has been the major recipient of PSBs' funding during the past decades. However, due to several factors, projects are increasingly stalled or stressed, thus leading to NPA burden on banks. In order to address NPA problems, actions proposed or undertaken after these meetings are as follows: *(a)* Project Monitoring Group: Cabinet secretary or respective	In coordination with the RBI, the government has been making concrete efforts to improve the recovery climate. Beginning with the introduction of an early warning system by institutionalizing SM0, SM1 and SM2 many supportive architectures have been created. The creation of a separate segment of 'non-cooperative borrower', formation of joint lender forums, allowing banks to take over management of sick units/problem accounts and many more have definitely improved the recovery climate. But much more needs to be done.

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	ministries will pursue with concerned agencies to facilitate issue of pending approvals or permits expeditiously. *(b)* Pending policy decisions to facilitate project implementation or operation would be taken up by respective ministries or departments. *(c)* Ministry of Coal/PNG will evolve policies to address long-term availability of fuel for these projects. *(d)* Respective discoms will be provided hand-holding towards enabling early reforms. *(e)* Promoters will be asked to bring in additional equity in an attempt to address the worsening leverage ratio of these projects. Wherever the promoters are unable to meet this requirement, banks would consider viable options for substitution or taking over management control. *(f)* The possibility of changing the extant duty regime without adversely impacting the downstream user industry would be considered by the government. The decision to increase import duty on steel has already been taken. *(g)* The has been requested to consider the proposal of the banks for granting further flexibility in restructuring of existing loans wherever the banks find viability.	Further actions proposed in the reform package will *(a)* indicate clearly to erring borrowers that the government/RBI are together in creating a systemic force to improve recovery, *(b)* eluding servicing of bank loans will no more be easy, *(c)* whole set of agencies are backing the banks in the task, *(d)* convey clearly that prompt repayment of loans will be essential for the recycling of funds for supporting economic growth. The measures proposed indicate that the crux of the problem of NPAs has been rightly diagnosed and hence addressing them becomes easy. On the whole, these measures are set to help speed up recovery of banks' dues in due course of time.
5.	**Empowerment:** It is assured that there will be no interference from the government and banks are encouraged to take their decisions independently, keeping the commercial interest of the organisation in mind. A cleaner distinction between interference and intervention has been made. With autonomy comes accountability; accordingly banks have been asked to build a robust grievance redressal mechanism for customers as well as staff so that concerns of the	The assurance to lend full autonomy to PSBs to take a commercial call on the various operational and business decisions is a welcome change. The fine distinction between the concept of interference from stakeholders and policy-led intervention makes the understanding clear. The problem of adverse selection stems more from interference and not from intervention. Hence, PSBs will be able to execute their business plans with more freedom on professional lines and can be accountable in due course for non-performance. The management's wisdom in choosing strategic

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	affected are addressed effectively in a time-bound manner. The government intends to provide greater flexibility in hiring manpower for banks. The government is committed to provide required professionals as NoDs to the Board so that well-informed and well-discussed decisions are taken.	options and their result orientation will come into greater focus without any intervention from stakeholders. Such autonomy will definitely improve the quality of business decisions and their outcome. The lateral induction of talent will also provide operational freedom to the MD & CEO to align business with skill-sets and business outcome. Thus PSBs need not feel helpless in building people competencies. A hybrid combination of private sector and public sector can be used to optimize synergy of both approaches in realising business aspirations. The support to well-accomplished professionals on the boards of PSBs will further create the differentiation.
6.	**Framework of Accountability:** The present system for the measurement of banks' performance was a system called SoI - Statement of Intent. Based on certain criteria decided by the Ministry of Finance (MoF), the banks used to come up with their annual target figures which were discussed between the MoF and banks and then finalised. The entire exercise took very long and sometimes the targets for banks used to be finalised only towards the end of the year, which is not a desirable thing to do. There are two changes being now made: *(a)* A new framework of Key Performance Indicators (KPIs) to be measured for performance of PSBs is being announced. It is divided into four sections totalling up to 100 marks; 25 marks each are allotted to indicators related to efficiency of capital use and diversification of business/processes and 15 marks each are allotted for specific indicators under the category of NPA management and financial inclusion. The total marks to be allotted	So far, performance review with reference to annual SOI benchmark has been used to incentivize CMD/EDs on the basis of a matrix. But such performance measurement was not percolated to people down below except through Annual Performance Appraisal Report (APAR) meant for all cadres in the bank made effective from FY12. The proposed framework is an improvement in the sense that it is measurable and linked to the business objectives of the PSBs. It will be a good tool to link performance with the outcome. The formats of KPIs have to be percolated down to the officers' level so that performance is aligned to the business. Bringing result orientation at every level will be essential with the help of KPIs. A right alignment of talent management with performance orientation will be able to help banks achieve their business objectives and stay competitive in the banking space. It is a right move to provide 80 per cent weightage to performance orientation and 20 per cent to qualitative dimensions, moving away from 50 per cent assigned earlier. PSBs are thus looking forward for achieving

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	for quantifiable, measurable criteria is 80. *(b)* The remaining 20 marks are reserved for measurement of qualitative criteria which includes strategic initiatives taken to improve asset quality, efforts made to conserve capital, HR initiatives and improvement in external credit rating. The qualitative performance would be assessed based on a presentation to be made by banks to a committee chaired by Secretary, Department of Financial Services.	business results and this will reduce subjectivity in assessment. The marked shift in the proposed performance assessment criteria can make a positive impact on the banks.
7.	**Governance Reforms:** The process of governance reforms started with Gyan Sangam - a conclave of PSBs and FIs organised at the beginning of 2015 in Pune which was attended by all the stakeholders, including Prime Minister, Finance Minister, MoS (Finance), Governor, RBI and CMDs of all PSBs and FIs. There was a focus group discussion on six different topics which resulted in specific decisions on optimizing capital, digitizing processes, strengthening risk management, improving managerial performance, and financial inclusion. The decision to set up a Bank Board Bureau which was subsequently announced in the Budget Speech of Hon'ble Finance Minister, came out of the recommendations of Gyan Sangam. Also, at this conclave, Hon'ble Prime Minister made a significant promise to the bankers that there would be no interference from any government functionary in the matter of their commercial decisions.	The very purpose of setting up Dr P J Nayak Committee to review the governance system in banks has to been to beef up the quality of governance. The brainstorming sessions of CMDs/EDs held during Gyan Sangam - 2015 at NIBM, Pune on the six identified topics has been intended to bring out the right kind of solutions to key challenges. The guidance of the prime minister and finance minister has been critical in providing the right orientation to the discussions. Among many other plans, the decision to form the Bank Board Bureau (BBB) is a strategic one to help change the governance structure for the better. Identification of right talent for driving the Board is essential to set a better tone of policies. Board members will be selected by the professionally driven BBB. This is expected to bring the synergy of the wisdom of its members with cross-functional expertise. The continuation of discussions in the next Gyan Sangam as an annual event affirms the resolve of the government to make PSBs strong. The challenges having been identified and solutions worked out, it all depends on the individual PSBs as to how to execute them to transform into more efficient enterprises. It also brings to the fore a debate on the prospects of

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	Continuing with this year's Gyan Sangam, the next Gyan Sangam will be held from January 14-16 to discuss strategies with top level officials. Further, a scheme of ESOPs for top management teams is under formulation. Other strategic initiatives such as consolidation etc. will also be discussed.	consolidation of weak banks with the stronger ones. Taking a holistic view, better governance and strong sustainable leadership is well on course to resurrect the PSBs.

Impact of Indradhanush Framework

A study of the impact of the proposed framework clearly brings out certain specific aspects: *(a)* coordinated resolve of the government along with RBI to speed up reforms in PSBs to make them more robust and agile, *(b)* thrust on removing barriers in the efficiency of PSBs in a bid to bring them in sync with their private peers, *(c)* priority to enforce recovery of bank loans strengthening all channels of recovery, *(d)* provide capital support to enable PSBs to implement Basel III standards by March 2019.

But any change management in large organisations, like PSBs, are always fraught with several challenges, more so at the initial stage. The thrust of reforms and its business approach should be strong enough to gain the required escape velocity to transform the performance culture and make it more result-oriented. Around 8.5 lakh employees of PSBs have been performing well and upgraded their skill-sets to suit the current dynamic environment and with support extended in the form of the Indradhanush package, PSBs will be able to gain good traction towards registering better performance.

Looking at the recent change in the organisational structure of PSBs, the long-term vision and broad contours of sustainable growth agenda can be pursued by the Non-Executive Chairman whose tenure will be fairly long. This can provide a long-term strategic roadmap which was never experienced by PSBs thus far. Unless PSBs brace themselves for the new set of reforms, the market share of the PSBs in due course may decline from 80 per cent in 2000, 71 per cent now to just over 60 per cent in 2025. Conversely, the market share of PvBs is projected to rise to about a third by 2025 from just over 12 per cent in 2000 and 18 per cent now.

Conclusion

Banking sector reforms have been initiated as far back as 1991 as part of a broad liberalisation policy to open up the economy and banking sector. Since then, banks have undergone several phases of transformation. The implementation of prudential norms such as income recognition, asset classification, and provisioning and capital adequacy norms began to change the operational basis and face of the delivery of banking services. The entry of new private banks, increase in activities of the capital markets, NBFCs, mutual funds, insurance and many similar financial intermediaries have posed great challenges to banks, including to PSBs. It has heightened competition and led banks to use state-of-the-art technology (core banking mode) proliferating Alternate Delivery Channels (ADCs).

Though operating in a similar ecosystem, the performance of PSBs need to improve substantially. In the meantime, banks are facing a tough challenge to augment capital to meet Basel III norms. Quite obviously, despite the best strategic initiatives of the PSBs to tone up their competitive abilities during the post-reform run-up, private banks have outperformed in many key parameters that can be gauged from the performance data, more particularly of the last five years. Understanding the unique role PSBs play in supporting the economy, the Department of Financial Services (DFS), Ministry of Finance has brought out an exhaustive reform plan of action known as Indradhanush which outlines seven concrete steps to strengthen them and to put them on the fast track of reforms.

Indradhanush is a comprehensive package of seven steps beginning with standardizing and improving the quality and process of key appointments in PSBs, formation of Bank Board Bureau (BBB), capitalisation, de-stressing PSBs from the burden of NPAs, empowerment, framework of accountability, and ushering in governance reforms. The impact of these measures is expected, over a period of time, to transform PSBs into more efficient commercial banks akin to their private peers imbibing best practices. Banks will thus witness a sea change in their functioning with performance management systems getting well-aligned to result orientation.

A sustainable implementation of these measures is also expected to bridge the gap in the performance indicators of PSBs in the next three to five years. Hence, the banking system is well-driven towards attaining international standards with the capability to serve the financially included society by putting into place synergy of technology and human competence. The sustainability of banking services and synergy of the system can collectively support the economy, which is poised to enter double-digit growth.

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