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Articles

❉ **Consolidation in Public Sector Banks**

✍ *K Srinivasa Rao*

In order to bring about greater operational efficiency, consolidation among public sector banks (PSBs) is widely discussed as one of the viable and critical options. As far as their contribution is concerned, 27 PSBs put together command an estimated market share of 70 per cent in banking business (deposits and advances) with a widely dispersed network of banking touch-points across geographies. But in terms of share of net profit, PSBs have only 42 per cent share in FY15, parting 58 per cent share to private and foreign banks against their 30 per cent business. Obviously, PSBs carry a less profitable business mix. With the rise in non-performing assets (NPAs) the losses of PSBs are going to substantially shrink by the time the 'clean up' of the banks' balance-sheet ends in FY17 due to additional provisions.

According to the RBI, the gross NPAs of banks have jumped from 5.1 per cent in September 2015 to 7.6 per cent in March 2016. Such a gross NPA ratio is expected to touch 8.6 per cent to total advances and may stabilise at 8.5 per cent by March 2017. The surge in NPAs indicates that Indian banks carry higher stressed assets compared to China (1.5 per cent) and Thailand (2.7 per cent). If stress levels in the economy continue to be high, the ratio may also reach 9.5 per cent. The stock of bad loans have reached a staggering level of Rs 5.8 trillion in March 2016 from a level of Rs 3.4 trillion in September 2016. But in terms of market reach, PSBs play a greater role through spread of branch network, ATMs, electronic kiosks, point of sale (POS) terminals, Business Correspondents (BCs) and even extension counters that dot the banking space in hinterland. Moreover, even when India is the seventh-largest economy in the world, none of the banks from India ranks among the first 70 global banks. Hence, asset size does matter when it comes to determine the risk absorbing capacity of banks.

❉ **Mergers and Acquisitions of Banks: A Retrospect**

✍ *M Ramamoorthy*

The present Indian banking sector is under the turmoil of non-performing assets (NPAs) and merger and acquisitions are expected to bring improvement in the banking sector. At the same time, the merged bigger size entity arising out of the merger of banks is subject to regulatory policy framework of D-SIBs (domestic systemically important banks) and the increased potential for systemic risk further intensifies the concerns for these banks being considered 'too-big-to-fail', which gives rise to the problem of moral hazard. In the above context, this paper discusses the present proposal for mergers of public sector banks, propelling and repelling factors, regulatory concern for such mergers and the implementation challenges that need to be addressed.

❉ **Annual Review and Forensic Audit of Corporate Borrowal Accounts and Early Warning Signals**

✍ *Deepak Narang & V S Kaveri*

In the financial year 2016-17, Fitch Ratings expects stressed assets ratio for Indian banks to improve marginally from 11.1 per cent in financial year 2015-16. The report states, "New NPL growth has started to slow down across many banks, but resolution of the existing large stock will be a slow and protracted process - as structural challenges in stressed sectors still persist while corporate leverage remains high. Therefore, credit costs are likely to remain high and will continue to be an overhang on earnings growth for a longer period, unless macroeconomic recovery and speedier reforms aid faster asset resolution or banks conduct greater capital-raising to push growth, or both."

During the current year, a steep rise in slippage in the loan asset quality is a matter of concern to banks, the Reserve Bank of India (RBI) and the Government of India. The growth in stressed assets (i.e. NPAs plus restructured standard assets) as on March end, 2015 was as high as 11.1 per cent of gross advances which adversely impacted profitability and capital of banks. To elaborate, the annual return on total assets of scheduled commercial banks declined from 1.09% during 2010-11 to 0.78 per cent during 2014-15. Similarly, CRAR came down to reach 12.70 per cent as on March end, 2015 as against 13.01% as at the end of March, 2014. During 2015-16, growth in stressed assets continued to be high and increasing. These disturbing trends call for strengthening credit monitoring system in banks to obtain early warning signals (EWS) of stress in borrowal accounts without much delay for initiating timely action. To obtain EWS, a close watch on developments in the borrowal accounts is a must. In addition, annual review of a borrowal account and forensic audit are also considered very useful sources to obtain EWS.

❉ **Maturity Transformation Practices by NBFCs in India: An Evaluation**

✍ *Hareesh Kumar A G & Thomas Paul Kattookaran*

Maturity transformation is a vital element in a strong financial system. Traditionally, it was the prime responsibility of commercial banks to engage in the process of maturity transformation. However, the global financial crisis and its consequences led to an increase in the number of non-banking financial companies (NBFCs). India also experienced the variant styles of maturity transformation by NBFCs. Here, recent practices of NBFCs are analysed with the data of two major NBFCs in Kerala. Under the loosened regulations, NBFCs tend to shorten the maturity.

❉ **Financial Literacy in India: An Overview**

✍ *Sanjoy Roy*

Financial literacy is one of the major challenges in many countries, including India. Available studies establish that those who are less financially literate are more likely to have problems with debt; are less likely to save; are more likely to engage in high-cost credit; and are less likely to plan for the future. The importance of financial literacy in India has gained impetus due to larger number of financially excluded resource-poor people, uncertain income(s) of individuals, declining role of the government and employers on social security measures and pension schemes, growth of innovative financial products etc. The present paper is a discourse on the meaning, aims and objectives, importance with a sketch on factors influencing financial literacy across the world, including India. The paper is also a modest attempt to highlight the impact of financial inclusion on financial literacy in Tripura with a focus on the initiatives of Reserve Bank of India and others to reach the financially excluded people, including the students and youth, enabling worldwide financial literacy campaign to become a reality.

❄ **Seven Habits of Highly Successful Bankers**

✍ *M S Phogat*

Banking is an art as well as science. Therefore, a banker needs to be an artist as well as scientist. I just finished publishing my book titled 'Leadership Lessons – Straight from the Heart' from Partridge Publishing India, which contains a turnaround strategy of a bank with detailed stories of my experience in a challenging overseas territory. The book is available at www.amazon.com. This article is an extract of the topmost important qualities of a banker on the basis of knowledge derived from the book. I thought that I must write a small article for the benefit of my fellow banker colleagues on few of the qualities most wanted from a senior banker in the leadership role.