

Golden Jubilee of Bank Nationalisation

July 27, 2020

Factors for Growth

1. A positive demographic dividend
2. A modern digital infrastructure supported by the JAM 'trinity'
3. GST network.

Highlights

- Since 1969, India has grown leaps and bounds to become the 5th largest economy in the world. Yet, India's banking sector is disproportionately under-developed given the size of its economy. For instance, India has only one bank in the global top 100 – same as countries that are a fraction of its size: Finland (about 1/11th), Denmark (1/8th), Norway (1/7th), Austria (about 1/7th), and Belgium (about 1/6th). Countries like Sweden (1/6th) and Singapore (1/8th) India's size have thrice the number of global banks as India does.
- A large economy needs an efficient banking sector to support its growth. Historically, in the last 50 years, the top-five economies have always been ably supported by their banks.
- To incentivize employees and align their interests with that of all shareholders of banks, bank employees should be given stakes through an employee stock ownership plan (ESOP) together with proportionate representation on boards proportionate to the blocks held by employees.
- A GSTN type of entity should be set up to enable the use of big data, artificial intelligence and machine learning in credit decisions, especially those pertaining to large borrowers. As the Government is the

owner of all the PSBs, the Government has the right to use the data that PSBs generate during their business. Therefore, the Government as the promoter must set up this entity that will aggregate data from all PSBs to enable decision making using big data techniques.

- The patterns in default that such powerful techniques can unearth are far beyond the capacity of any unscrupulous promoter to escape. Therefore, such investments are critical to ensuring better screening and monitoring of borrowers, especially the large ones.
- With the cleaning up of the banking system and the necessary legal framework such as the Insolvency and Bankruptcy Code (IBC), the banking system must focus on scaling up efficiently to support the economy.