

Public Sector Banks

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Initiatives of Government of India to strengthen Public Sector Banks

To strengthen the Public Sector Banks (PSBs), over the last four financial years, the Government of India has taken comprehensive steps under its 4R's strategy of recognising NPAs transparently, resolving and recovering value from stressed accounts through clean and effective laws and processes, recapitalising banks, and reforming banks through the PSB Reforms Agenda.

Various steps taken by the government to improve the conditions of banks

- **Insolvency and Bankruptcy Code (IBC):** Change in credit culture with institution of IBC fundamentally changing the creditor-borrower relationship, taking away control of the defaulting company from promoters/owners and debarring wilful defaulters from the resolution process and debarring them from raising funds from the market.
- **Fugitive Economic Offenders Act** has been enacted enabling confiscation of fugitive economic offenders' property.
- PSBs heads have been empowered to request for issuance of look-out circulars.
- **National Financial Reporting Authority** has been established as an independent Regulator for enforcing auditing standards and ensuring audit quality.

- **Key reforms have been instituted in PSBs, including the following:**

1. Board-approved Loan Policies of PSBs now mandate tying up necessary clearances/approvals and linkages before disbursement, scrutiny of group balance-sheet and ring-fencing of cash flows, non-fund and tail risk appraisal in project financing.
 2. **Use of third-party data** sources for comprehensive due diligence across data sources has been instituted, thus mitigating risk on account of misrepresentation and fraud.
 3. Monitoring has been strictly segregated from sanctioning roles in high-value loans, and specialised monitoring agencies combining financial and domain knowledge have been deployed for effective monitoring of loans above Rs. 250 crore.
 4. To ensure timely and better realisation in one-time settlements (OTSs), **online end-to-end OTS platforms** have been set-up.
 5. For faster processing of loan proposals, **Loan Management Systems** (LMS) have been put in place for personal segment and MSME loans.
- To strengthen governance at the Board level, the position of **Chairman and Managing Director has been bifurcated into a non-executive Chairman and an MD & CEO.**
 - A professional **Banks Board Bureau** has been created for arm's length selection of non-executive Chairman and whole-time directors (WTDs).

By addressing the underlying causes behind the build-up of stress in PSBs through comprehensive reform to change credit culture and tighten discipline for every stakeholder in the financial system, institutionalising robust underwriting and

monitoring, governance reforms, and leveraging the transformation potential of technology, the risk of recurrence of excessive stress in PSBs has been minimised and PSBs have emerged stronger