Editorial

Punitive Confrontation Awaits the New Banks Board Bureau

The Banks Board Bureau completed its term of 2 years on 31st March 2018. Set up as an autonomous body since April 2016 Banks Board Bureau was primarily entrusted with the responsibility of improving the governance of public sector banks by assisting the government in gathering the talent pool for hiring at the top post in the State Banks and Financial Institutions. The scope of the functioning of Banks Board Bureau included giving recommendation for the appointment of non executive chairman as well as full time directors of public sector banks. It also gave advice to public sector banks in evolving strategies for raising funds through innovative financial methods. It was also expected to guide the banks on governance issues related to bad loans problem as well as on mergers and consolidations.

Provenance and Directives

In tune, with the suggestions of committee headed by PJ Nayak to review governance of boards of banks in India, the BBB was intended to alternatively translate into a Bank Investment Company. Once operative, the Bank Investment Company will function as an independent special purpose vehicle that would provide the banks greater autonomy. After the much sorted deliberations at the first Gyan Sangam held under the flagship of government and the regulatory authorities in January 2015, mission Indradhanush was launched which reinforced the banking sector reforms in India. Since then, Banks Board Bureau is entrusted with the primary responsibility of identification, selection, maintaining the quality leadership, succession planning and enforcement of code of conduct and ethics for public sector banks.

But in reality, the accomplishment of the ambitious goals of putting public sector banks on the desired growth path proved to be a herculean task within the limited tenure of 2 years for the first Banks Board Bureau. However, the compendium of recommendation released by the first banks board Bureau giving suggestion in terms of appointment of Boards of Bank, compensation, performance assessment, governance and code of conduct and ethics shall be undoubtedly much helpful in formulating the strategic polices for the new Bank Board Bureau.

Role of the new Banks Board Bureau

The distinct advantage that new Banks Board Bureau has that of specific goals due to the past base work done by the old Banks Board Bureau. In spite of it, its biggest challenge shall be to device suitable strategies to win the confidence of its biggest stake holder the Department of Financial Services.

The new Banks Board Bureau has an uphill battle ahead of it. The operational state of the public sector banks has declined along with the increase in asset quality distress. The employee morale is sinking causing a deep decline in the working environment and efficiency of the work force. While many of these issues are past its directives, it may need to resolve them for accomplishment of its key objective of improving the efficiency of public sector banks.

There has been a noted decline in the asset quality since the Reserve Bank of India conducted the asset quality assessment in September 2015. The assessment was done to reduce the divergence between the banks classification of non performing assets and the central bank assessment.

With the vision to lower down the non performing assets (NPAS) that has increased to a historical high, the Bankruptcy Code 2016 was set up followed by Insolvency and Bankruptcy Board of India. (IBBI)

Thus, the major take before the new Bank Board Bureau is to synchronise the debt resolution process and improve asset quality. Although it is not the part of the BBB mandate but it is a prerequisite for the revival of public sector banks.

The New Challenges

The fraudulent transactions by the Punjab National Bank followed by series of bank related frauds has highlighted the need for effective systemic control and risk governance practices. With high susceptibility to frauds, public sector banks will take a long time to win back the public confidence.

After the demonetization and the implications of the goods and services tax the economy is gradually limping back to normal but, it would be draining if the role of public sector bank is allowed to decline further.

On the whole, in light of the demanding mandate, a challenging task awaits the new Banks Board Bureau, where seeking Government support, application of foresight and adopting a flexible approach in grooming Board functionaries of public sector banks will be necessary to achieve its objectives. The New BBB has has to reinvent it strategic role through greater coordination with all stakeholders specially the Department of Financial Services.

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