Centre for Financial Accountability

PRIVATIZATION OF PUBLIC SECTOR BANKS:
A LETHAL BLOW TO SOCIAL BANKING

A Critical Report on Indian Overseas Bank

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Author: **Kannan Neelamegan**

Cover & Design: **Kavita Kabeer & Haripriya Harshan**

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Website: www.cenfa.org
Email: info@cenfa.org

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Today our country is in an economic crisis mainly due to the COVID-19 pandemic. There is massive unemployment. Rural infrastructure is not improving and Central Government has been focusing on funding infrastructure projects and monetizing / privatizing public assets in order to fund such projects. Public Sector Banks have been a target of privatization moves for over three decades, but for the first time the government openly announced privatization of two public sector banks in the budget speech of 2020.

This paper specifically covers the initiatives taken by the Central Government/Regulators on the Public Sector Banks as a whole to which we feel that these issues are yet to be reviewed and immediately rectified. The recent proposal made by the government is a matter of serious concern that the government is going to privatize two PSBs apart from continuing the unwanted mega merger process. Since the announcement of privatization of two public sector banks, there has been much talk about which would be the two banks to be privatized. Though there has not been any confirmation, it is widely believed that the Central Bank of India and Indian Overseas Bank has been zeroed down for privatization. This is paper looks closely at IOB and its contributions.

The Pathway To Privatization:

Since the Narasimham committee which proposed the banking reforms in 1990s had recommended state to reduce its stakes in the public sector banks to 33 percent. Though a direct privatization of disinvestment was strongly resisted by the people and unions, over the decades many measures were taken that have ultimately made it possible for privatization.

From reducing human resource by not filling permanent positions, introducing voluntary retirement policies which have mostly drained out experienced senior officials, diversifying from banking services to offer other financial products like insurance etc. are some of the measures that have weakened the banks from within. Changes in the lending patterns too have had their impacts on the banks. One of the objectives of nationalization was to ensure that credits reached common people for their credit needs, with the reversal of this policy banks entered into long term lending ended with huge NPAs. All measure to address the NPA crisis has been a stepping stone towards privatization.

Through mergers the number of PSBs has been reduced. The introduction of IBC also facilitated high provisions which reduced the profits of the PSBs. The formation of National

Asset Reconstruction Company enables the banks to sell their bad loans to the company to clean their balance sheet which will surely aid in better valuation.

The government also uses other methods to aid privatization by absorbing the risks like in the case of IDBI. When IDBI bank was in problem of NPA crisis, it was made public sector in 2014. The government infused substantial capital needs and the bank also made huge write-offs under the PSB's entity. When it started earning profits, once again it was privatized in 2019.

Vicious Cycle

Banking or for that matter any business has an inherent component of risk. There is no bank in the world either private or public which has exhibited a very good performance in all the years. The banking reforms along with the systematic killing of development banks led to public sector banks giving out large credits to business and sectors that were previously not the target of PSBs. While this created a credit boom in the early 2000s, it also led to NPAs. By 2015, the Asset Quality Review brought out the huge volume of NPA that banks have been restructuring. Many of these questions raised are from not understanding the policy decisions taken by both the government and RBI and put the blame squarely on the banks. Even at the high of the baking crisis and many wrongful recovery and lending policies from RBI, PSBs still managed to make reasonable operational profits.

Focusing on measures like write offs, haircuts, mergers, bad banks without making any changes to the lending norms, only perpetuated the vicious cycle that PBSs are stuck in.

Merger of PSBs: A Pre-Planned Move Towards Privatization?

During the merger process, all the banks were compelled to write-off huge amounts (NCLT haircuts/ IBC commitments).With this, even one of the other public sector banks "Indian Bank" (the only PSB which showed some sizeable net profit when all other banks were in huge crisis since 2015) made write-off around Rs.20, 000 crores (RBI Statistical Report, 2021)during the recent merger process in the last two years. Also, SBI, the larger public sector bank made huge write-offs amounting Rs.58905.18 cr in 2018-19 according to RBI statistical Report earlier. This draining of public money at this volume is done for the purpose of cleaning the books of the banks in preparation leading to easy privatization.

In the case IOB, the bank observed the critical NPA impact in the beginning/earlier stage of economic crisis and the impact continued during the lock down period also. All the other banks followed suit in the subsequent years and the system as a whole observed huge NPAs and posted huge loss due higher provisioning. At this time only, the government introduced mega merger plan cooling us that NPAs would come down.

The government has stated that the merger process would be smoother technologically as all the proposed merger banks lay under the same CBS Platform. Now, Banks offer a wide range of services and products, and their activities are termed Core Banking, which is managed by a centralized platform that enables customers to do transactions from any branch. CORE stands for "Centralized Online Real-time Exchange," which allows a bank's branches to access programs from centralized data centers. Besides retail customers, core banking also addresses the needs of corporate clients to deliver a complete banking system. With a CBS, banks can improve their operations to address industry consolidation and customer demands and more. The merger process was initiated in SBI (as all associate banks lay in the same core-banking platform).In reality, it was told that SBI took nearly 48 hours to update a single borrowal entry. Similar to demonetization, SBI took more than 6 months to complete the merger process affecting the regular customer service with keeping other works in pending. In fact, MSME sector suffered much during the SBI merger process and the Bank (SBI) as a whole showed poor credit growth and ROA in the next two years. **In the case of IOB, the bank was earlier running successfully with its own core-banking solutions**.

But, as per the published IOB's Annual Report 2014-15,"The Bank has implemented the Core Banking solution developed in-house, christened "CROWN"(Centralized Resources Over Wide-area Network) with ISO:9001:2008 certifications. As per the directives of the Ministry, the Bank has planned to move to the COTS CBS model which is widely used by all other PSBs in India" (IOB, annual report 2014-15).

As such, this committed action was an additional burden to the Bank as it met huge additional capital expenses (estimate of around Rs.400 crores) while the Bank was already facing more constraints on NPA issues.

Indian Overseas Bank & Its Dominant Performance

Indian Overseas Bank founded on 10th Feb 1937 by Shri. M.Ct.M Chidambaram Chettiyar and started in Tamil Nadu as an overseas bank with branches in Karaikudi, Chennai and Yangon. The bank was specifically started to facilitate the overseas business of the mercantile community (Chettiyars) whose business spread in places like Sri Lanka, Myanmar, Malaya, Singapore, Java, Sumatra, and Saigon. It was the pioneer bank which has inaugurated its banking activities on the same day of its opening domestic as well as overseas branches. Due to this the bank had from the beginning specialized in foreign exchange activities. It emerged as a successful public sector bank in almost all the period of past 50 years of Nationalization.

Despite the situation being pandemic, it is proud of IOB that the bank has made a successful turnaround in the FY 2020-21 and the total net profit amounts to Rs.831cr as against the loss of Rs.8527 cr marked in the FY2019-20..Its performance highlights as of 31/12/2021 is photocopied here as per the bank's press release published recently.

Indian Overseas Bank
Central Office
Chennai
Press Release

02.02.2022

Performance Highlights – 31.12.2021

(Rs. In Crores)

	31.12.2021 (3 Months)	31.12.2020 (3 Months)		31.12.2021 (9 Months)	31.12.2020 (9 Months)	
Operating Profit	1527	1731	↓	4149	4172	↓
Net Profit / Loss	454	213	↑	1157	482	↑
Deposits	247118	234116	↑	247118	234116	↑
Gross Advances	148316	137469	↑	148316	137469	↑
Investments	97073	86691	↑	97073	86691	↑
Business Mix	492507	458276	↑	492507	458276	↑
CASA	105105	95830	↑	105105	95830	↑
CASA Ratio	42.53%	40.93%	↑	42.53%	40.93%	↑
Gross NPA	15427	16753	↓	15426	16753	↓
Net NPA	3587	3905	↓	3587	3905	↓
Net Interest Margin	2.40%	2.45%	↓	2.42%	2.46%	↓
Gross NPA Ratio	10.40%	12.19%	↓	10.40%	12.19%	↓
Net NPA Ratio	2.63%	3.13%	↓	2.63%	3.13%	↓
Cost to Income Ratio	44.62%	43.50%	↑	48.79%	48.10%	↑
PCR	92.33%	91.91%	↑	92.33%	91.91%	↑
CRAR	15.41%	11.49%	↑	15.41%	11.49%	↑
RoE	15.37%	13.63%	↑	16.73%	11.78%	↑
CD Ratio	60.02%	58.72%	↑	60.02%	58.72%	↑
RoA	0.62%	0.28%	↑	0.54%	0.21%	↑

- Profit for the quarter ended 31.12.2021 recorded at Rs.454 crores as against Rs.376 crores for the quarter ended 30.09.2021.
- Net NPA has improved to 2.63% which is less than 6.00% prescribed by RBI
- During the quarter GNPA reduced by Rs.240 crore. GNPA ratios stands at 10.40% reduced from 10.66% QoQ
- The provision coverage ratio improved to 92.33% as on 31.12.2021 as against 92.00% for the quarter ended 30.09.2021.
- Total Cash Recovery for December 2021 was Rs.1199.51 crore (includes Recovery from Tech write off of Rs.247.37 crore and sale to ARC of Rs.241.46 crore and Security Receipts) as against Rs.831.77 crore (includes Recovery from Tech write off of Rs.428.61 crore) in September 2021.

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The following table consolidates key data relating to NPA Management and Profitability criteria of the entire PSBs as a whole compared with IOB

CONSOLIDATION OF PUBLIC SECTOR BANKS)
Rs.in crore

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	6yr avg
Gross NPAs- Opening bl	265783	515081	639980	840013	739339	546590 *	591131
Slippages	366875	299982	384301	210552	238464	278711	296481

Write-off	53985	79123	116989	183391	178305	134000	124299
Recoveries	63592	95960	67279	127835	99692	74685	88174
Gross NPAs-Closing bl	515081	639980	840013	739339	699806	616616	675139
Gross Advances	5584313	5655328	5961378	6382330	6660400	6770400	6169025
NPA provisions	148365	161125	251826	228944	204442	114934	184939
Gross Profit	130829	154275	147787	149807	174390	195859	158825
NET PROFIT	-14325	-6659	-77131	-66608	-26015	31818	-26487
AWF	8557700	9128700	9643000	10073300	11310900	11520800	10039067
SLIPPAGES TO previous year GROSS Advances %	6.76	5.37	6.80	3.53	3.74	4.18	4.81
WRITE-OFF to previous year NPAs%	20.31	15.36	18.28	21.83	24.12	19.15	18.41
RECOVERIES to previous year NPAs%	23.93	18.63	10.51	15.22	13.48	10.67	13.06
NPA provisions to Total NPAs%		25.18	29.98	30.97	29.21	18.64	27.39

CONSOLIDATION OF IOB

Rs.in crore

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	6 yr Aver
Gross NPAs-Opening	14922	30049	35098	38180	33398	19913	28593
Slippages	20998	13004	16825	8845	7225	2241	11523
Write-off	2128	2294	7018	7682	16407	4618	6691
Recoveries	3743	5661	6725	5945	4303	1213	4598
Gross NPAs-Closing	30049	35098	38180	33398	19913	16323	28827
Gross Advances	172727	156757	151028	151996	134772	139597	151146
NPA provisions	9405	13812	12300	9881	11172	3943	10086

Gross Profit	2885	3650	3629	5034	3534	5896	4105
NET PROFIT	-2897	-3417	-6299	-3738	-8527	831	-4008
AWF	298650	282400	270350	276900	289050	268100	280900
SLIPPAGES TO previous year Gross Advances%	11.73	7.53	10.73	5.86	4.75	1.66	7.62
WRITE-OFF to previous year NPAs%	14.26	7.63	20.00	20.12	49.13	23.19	23.21
RECOVERIES to previous year NPAs%	25.08	18.84	19.16	15.57	12.88	6.09	15.95
NPA provisions to Total NPAs%		39.35	32.22	29.59	56.10	24.16	34.99

***Data source: (our consolidation from the published results of all the Public Sector Banks**

***(During merger ,gross NPAs of Allahabad, Andhra, Corpn, OBC, Syndicate& United banks totaling Rs.131727 cr were included as additions/slippages under PSBs)**

As per our brief analysis, we observe the following factors where the bank has done very well and also some of the challenges faced.

Towards amicable growth

- ✓ Sustainability of business growth at 7.5%(annualized) in Dec21 over Dec 20 level
- ✓ Improved ROA at 0.0.54% in Dec 21 as against 0.31% (All PSBs average, Systemranked 3rd in Mar21).
- ✓ The key ratio of operating profit to AWF is favorably maintained at 1.94% compared to 2.20% in Mar 21 level (System Ranked first).
- ✓ Gross NPA ratio comfortably lower at 10.40% in Dec21 level compared to 11.69% in March 21

Challenges

- Write-off as a % to last year NPA level (annualized) still higher at 25.05% in Dec 2021 as against 23.19% in FY2020-21.
- Poor yield on Investments combined with reduced yield on advances resulted in lower annualized NII growth at 6.25% in Dec 21 compared to 11.24% in Mar21.However, NIM was steady at 2.42% in Dec 21 compared to 2.21% in March21
- IOB's present SLR is above 23% against the mandatory level of 18%. Present yield on Investments is lower at 5.80% compared to around 6.53% in last year.
- 6 year average Slippages are higher at 7.62% compared to system average of 4.81% (RBI norms earlier fixed at 1% below).Hence, corresponding write-off is high at 23.21%of NPAs compared to system level of 18.41%.
- Impact of NPA provisioning was higher at 35% compared to 6 year system average of 27.39%.

At the outset, IOB excelled its performance in many of the key parameters with all other public sector banks with or without merged entity during the year 2020-21 as explained in the tables follow.

Out of 15 parameters wherein we have measured performance of IOB with all other PSBs, we observe that IOB stands first among all the PSBs in respect of one parameter fixed under "operating profit to Working funds ratio" highest at 2.20% for the year 2020-21.

IOB vs Other PSBs comparison for the period 2020-21 (Rs in crore)

Details 2020-21	SBI	PNB	BOB	CANARA	UNION	INDIAN	BOI	CBI	IOB
Business rank	1	2	3	4	5	7	6	8	9
Deposits	3681277	1106332	966996	1010875	923805	538071	627114	329973	240285
Gross Advances	2539393	739407	751590	675155	653684	390317	410436	176900	139597
Net Investme	1351705	392983	261220	261690	331512	176538	187253	148582	95494

nts									
Business	6220670	1845739	1718586	1686030	1577489	928388	1037550	506873	379882
Business growth%	9.82	0.62	0.41	8.23	2.78	8.27	6.74	2.28	6.19
Dep.growth %	13.56	3.24	2.22	11.50	6.35	10.07	12.89	5.17	7.77
Adv Growth%	4.81	-3.06	-1.83	3.68	-1.87	5.87	-1.46	-2.70	3.58
Inv.growth%	29.11	5.65	-4.88	2.63	18.32	9.04	18.09	4.25	20.25
SLR% to NDTL	NA	>26	>23	>23	>24	>24	>23	>30	>24
Gross NPA-Amount	126389	104423	66671	60288	89788	38455	56535	29277	16323
Gross NPA%	4.98	14.12	8.87	8.93	13.74	9.85	13.77	16.55	11.69
Gross Oper.Profit	71554	22980	20270	20009	19259	11396	10872	4630	5896
GP-TO WF	1.68	1.70	1.71	1.80	1.79	1.90	1.41	1.37	2.20
Gr.Profit growth%	5.02	28.42	7.27	55.93	6.54	18.87	-5.62	6.58	69.43
ROA%	0.48	0.15	0.07	0.23	0.27	0.50	0.28	-0.26	0.31
AWF	4252083	1348000	1185714	1111739	1076296	601000	771429	337692	268065
CRAR%	13.74	14.32	14.99	13.18	12.56	15.71	14.93	14.81	15.32
Salary Increase %	11.42	-19.72	19.67	8.17	>14	19.57	5.41	1.80	14.25
Govt..Share% held		76.9	63.97	69.33	89.07	88.86	89.1	89.78	96.38

% of NPA provisions to Total Provisions	53.27	81.40	82.31	81.18	67.74	87.21	75.91	87.17	77.85
NPA provisions % to Operating Profit	38.07	74.24	61.21	70.80	72.27	64.22	60.83	112.10	66.88
Recovery as a% to last year Gross NPA	11.83	10.88	11.82	11.95	5.34	8.71	6.80	7.84	6.09
Write-Off as a% to last year Gross NPA	11.80	15.10	21.44	14.94	17.47	20.07	14.19	18.39	23.19
NII Growth%	12.87	17.05	4.95	18.57	4.37	19.98	-6.46	8.09	11.24
NET PROFIT	20410	2022	830	2557	2906	3005	2160	-878	831

***Data source: (our consolidation from the published results of all the PSBs). Details our assessment particulars and rating measures are given in the next table.**

Details 2020-21	IOB	UCO	BOMaha	P&Sind	ALL PSBs	Rating measures
Business rank in the present setup of 12 PSBs	9	10	11	12	TOTAL	

Deposits	240285	205919	174005	96108	9900760	
Gross Advances	139597	118405	107654	67811	6770349	
Net Investments	95494	93783	68112	32023	3400895	
Business rank in the present setup of 12 PSBs	379882	324324	281659	163919	16671109	
Business growth%	6.19	5.25	8.07	6.25	6.13	>6 % FAVORABLE + Growth NORMAL - Growth UNFAVOR
Dep.growth %	7.77	6.58	15.95	7.18	9.42	
y-o-y Adv. Growth %	3.58	3.00	-2.62	4.96	1.65	
y-o-y Inv.growth%	20.25	3.06	-17.96	30.43	14.52	<10 % FAVORABLE + Growth NORMAL >15% Growth UNFAVOR
SLR% to NDTL	>24	>26	>26	>19	>23	<20 % FAVORABLE 20% to 23% NORMAL >23% UNFAVOR
Gross NPA-Amount	16323	11352	7780	9334	616615	
Gross NPA%	11.69	9.59	7.23	13.76	9.11	<10 % FAVORABLE 10% to 12% NORMAL

						>12% UNFAVOR
Gross Oper.Profit	5896	5420	3958	771	197015	
GP-TO WF	2.20	1.95	2.16	0.72	1.71%	>2 % FAVORABLE 0% to 2% NORMAL Negative growth UNFAVOR
Gr.Profit growth%	69.43	12.08	39.02	29.72	13.49	>14 % FAVORABLE Positive growth NORMAL Negative growth UNFAVOR
ROA%	0.31	0.06	0.30	-2.55	0.31	>030% FAVORABLE 0% to 0.30% NORMAL Negative growth UNFAVOR
AWF	268065	278333	183333	107176	11520800	
CRAR%	15.32	13.74	14.49	17.06		>12% FAVORABLE 8% to 12% NORMAL <8% UNFAVOR
Salary Increase%	14.25	27.89	29.30	39.39	6.51%	8% to 12% FAVORABLE 12% to 15%

						NORMAL >15% and <8% UNFAVOR
Govt..Share% held	96.38	94.44	93.33	97.07		
NPA provisions as %Total Provisions	77.85	50.22	81.19	64.14	70%	<65% FAVORABLE 65% to70% NORMAL >70% UNFAVOR
NPA provisions % to Operating Profit	66.88	50.92	55.94	347.34	58.34%	<55% FAVORABLE 55% to60% NORMAL >60% UNFAVOR
Recovery as a% to last year Gross NPA	6.09	6.06	13.53	10.45	11.01	>15% FAVORABLE 10% to15% NORMAL <15% UNFAVOR
Write-Off as a% to last year Gross NPA	23.19	48.81	41.00	0.79	19.75	<15% FAVORABLE 15% to20% NORMAL >20% UNFAVOR
NII Growth%	11.24	7.62	14.49	9.91	10.98%	>15% FAVORABLE 10% to15% NORMAL <15% UNFAVOR
NET PROFIT	831	167	550	-2733	35438	

Further, under the other four parameters of business growth, gross profit growth, ROA & CRAR IOB stands in a very favorable position. Its position stands normal in respect of other four parameters fixed under Credit growth, Present gross NPA%, salary provisioning adjustments & NII growth. And IOB's position stands unfavorable under the other six parameters fixed such as Investments growth, Higher SLR, Percentage of NPA provisions to Total Provisions, Recovery percentage & Write-off percentage & NPA provisioning amount to total operating profit ratio. Consolidation of all the parameters put together explains the position of IOB and its overall performance seems good compared to other banks such as BOB, PNB, UNION, CBI & BOI during the year 2020-21.

IOB's Unique Compliment: Convener of State Level Bankers' Committee: IOB the Lead bank in Tamil Nadu

SLBC is an inter-institutional forum at State level ensuring co-ordination between Government and Banks on matters pertaining to banking development. SLBC came into existence under Lead Bank Scheme formulated under RBI guidelines. State Level Bankers' Committees are formed in all the States for inter-institutional coordination and joint implementation of programs and policies by all the financial institutions operating in the State. Responsibility for convening State Level Bankers' Committee (SLBC) meetings has been assigned to various commercial banks. SLBC meetings, held quarterly, provide for interaction among the various banks in the State on the one hand and between the banks and the State Government authorities on the other. Indian Overseas Bank is the present Convener Bank of SLBC, Tamil Nadu. Country as a whole, SBI is the convener bank of SLBC in 13 states, PNB IN 10 States, BOB in 8 states, Canara Bank in 3 states , UCO bank in 2 states and other 4 states each one shared by Union, CBI, BOI, and Bank of Maharashtra.

SLBC facilitates effective implementation of development programmes in the areas of poverty alleviation, employment to un-employed, providing banking outlet in un-banked areas, training, financial literacy etc. The role of SLBC is reinforced by the High Level Committee constituted by RBI to review Lead Bank Scheme to take care of development of banking facilities particularly in Rural and Backward areas.

Objectives of Lead Bank Scheme

- Removal of unemployment and underemployment by channelizing banks' advances for regional development.

- Ensuring appreciable rise in the standard of living of the poorest sections of the population by providing credit.
- Bringing about greater understanding and co-operation between banks and government departments / agencies in implementing various programmes / schemes.
- Identifying major constraints impeding the development of the district's economy and roping in appropriate agencies to take remedial measures. Formulation of Annual District Credit Plan and its implementation.
- The service area concept be made mandatory for government sponsored schemes
- To focus attention on the urgent need for achieving 100% financial Inclusion through penetration of banking services in the rural areas. RBI has accepted the recommendations of the High Level Committee and advised action areas to SLBC Conveners and Banks for implementation.

The overarching objective of Lead Bank Scheme shall be to enable banks and State Governments to work together for inclusive growth. Pradhan Mantri Jan-Dhan Yojana (PMJDY) is National Mission for Financial Inclusion to ensure access to financial services, namely, a basic savings & deposit accounts, remittance, credit, insurance, pension in an affordable manner. Under the scheme, a basic savings bank deposit (BSBD) account can be opened in any bank branch or Business Correspondent (Bank Mitra) outlet, by persons not having any other account. **Indian Overseas Bank** has the Lead Bank responsibility in 14 districts in Tamil Nadu and 1 district in Kerala. The Bank is also the Convener of State Level Bankers' Committee of Tamil Nadu (SLBC).

As Convener of SLBC, Tamil Nadu, the Bank has to conduct main meetings of SLBC. In addition, the Bank as convener of SLBC, Tamil Nadu has to convene many special meetings /core committee / subcommittee meetings every year. Any move to privatization of IOB will cause to the entire system of Lead bank setup. Just like that, the lead bank assignment cannot be transferred to other private bank without consulting the concerned State Government itself. It is not just like a fund transfer business. The entire setup of lead bank scheme will become a jolt in all other states also. It is doubtful whether the Niti Aayog has made any mention or alternative mechanism on this issue in their report.

IOB Market share: Strength in Branch centers at Country as a whole

	Rural	Semi-Urban	Urban	Metro	Total
Total PSBs-BRANCHES	28842	24434	18940	18841	91057
% share to total branches	31	27	21	21	100
IOB Branches	903	962	676	737	3278
% share to total branches	28	29	21	22	100

For every total 100 branches in India, IOB's share of branches at rural, semi urban, urban and metro areas is almost same as that of banking system. Although the present market share of IOB's business among all SCBs is only 2.26%, its market share in staff level is higher at 3.15% and total branches at 3.60% well comparable to all other peer and big banks.

IOB: Tops strength in Rural and Semi urban centers leading major share in Tamil Nadu

TAMIL NADU	Rural	Semi-Urban	Urban	Metro	Total
Total Private and PSB's branches	2559	3623	1597	2674	10453
PSBs alone	1870	2231	1038	1570	6709
of which ,IOB alone	435	389	121	177	1122
private bank branches	689	1392	559	1104	3744
IOB SHARE% to total branches	17	11	8	7	11
Other PSBs share	56	51	57	52	53
private banks share	27	38	35	41	36
Share total	100	100	100	100	100

From the above table, it is clear that IOB dominates in rural branch network as explained below.

%Share of Branches in Tamil Nadu	Rural	Semi-Urban	Urban	Metro	Total
Other PSBs share%	**28**	**33**	**16**	**23**	**100**
private banks share%	**18**	**37**	**15**	**30**	**100**
IOB 's SHARE%	**39**	**35**	**11**	**15**	**100**

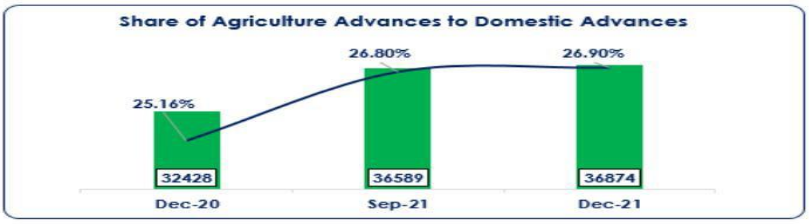
Since nationalization, as a leader bank IOB was rendering exemplary services especially in rural &semi urban centers achieving all the targets of priority sector lending every year. For every total 100 branches in Tamilnadu, IOB's share of rural at 39% is the highest share when compared to Other PSBs at 28% and Private banks at very low of 18%. IOB's share of semi urban at 35% is also higher than Other PSBs share of 33% and more comparable with that of 37% for all private banks.

Its performance is significant especially under priority sector lendings as per chart exhibited in their recent press release

AGRICULTURE ADVANCE PERFORMANCE

Rs. in Crore

IOB



Period	Domestic Advances	Agri Advances	% Share to Domestic Advances	Agri Advance (Including RIDF & IBPC)
Dec-20	128889	32428	25.16%	33760
Sep-21	136507	36589	26.80%	37822
Dec-21	**137072**	**36874**	**26.90%**	**38014**

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AGRI ADVANCES – PRIORITY SECTOR

Rs. in Crore

IOB

Financial Year	ANBC	Target (18% of ANBC)	Achievement	
			Amount	%
2018-19 (Avg of 4 Qtrs)	146878	26438	31045	21.14%
2019-20 (Avg of 4 Qtrs)	153880	27698	30047	19.53%
2020-21 (Avg of 4 Qtrs)	159442	28699	32334	20.28%
Jun-21	157524	28354	35660	22.64%
Sep-21	143511	25832	36371	25.34%
Dec-21	**144628**	**26033**	**35644**	**24.65%**

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Alternative plan for proposed privatization

While we argue that privatization is not the solution, we would like to suggest a model alternative plan to the government which we hope could be easily fine-tuned by the policy makers without causing concern over damage of any public assets as it is presently opposed by major public and all the banking sector in general.

.As per the Banking Regulation act 1961, act certain portion of SLR is to be maintained by all Scheduled Commercial Banks (SCBs). Statutory Liquidity Ratio (SLR) refers to the percentage of the net demand &time liabilities that commercial banks have to invest in liquid assets on a fortnightly average basis. The RBI has specified such liquid assets which banks have to invest in to maintain their SLR. (i) in cash, or (ii) in gold valued at a price not exceeding the current market price, or(iii) investment in approved securities. 'Approved securities' means those securities that are issued by the Central Government or any State Government or other securities that are specified by the RBI from time to time. The RBI specifies the SLR status of securities issued by the Government of India and the State Governments.

Under section 42(1) of Reserve Bank of India Act, 1934, all Scheduled Banks are required to maintain with Reserve Bank of India a Cash Reserve Ratio (CRR) of 4% of Net Demand and Time Liabilities (NDTL) as of now and as per Section 24 in BANKING REGULATION ACT, 1949, all Scheduled Banks are required to maintain with Reserve Bank of India a Statutory liquidity Ratio (SLR) of 18% of Net Demand and Time Liabilities (NDTL) on fortnightly average basis. RBI can increase the SLR slab up to 40% as per their requirements and economic conditions and as per the liquidity arrangements.

This is possible even under the regulations of the Banking Regulation Act, 1949. Section 24 of **the Banking Regulation Act, 1949** says:

[126] *[(2A) A scheduled bank, in addition to the average daily balance which it is, or may be, required to maintain under section 42 of the Reserve Bank of India Act, 1934 (2 of 1934) and every other banking company, in addition to the cash reserve which it is required to maintain under section 18, shall maintain in India, assets, the value of which shall not be less than such percentage not exceeding forty percent of the total of its demand and time liabilities in India as on the last Friday of the second preceding fortnight as the Reserve Bank may, by notification in the Official Gazette, specify from time to time and such assets shall be maintained, in such form and manner, as may be specified in such notification.*

Statutory Liquidity Ratio (SLR)

Consequent upon amendment to the Section 24 of the Banking Regulation Act, 1949 through the Banking Regulation (Amendment) Act, 2007 replacing the Regulation (Amendment) Ordinance, 2007, effective January 23, 2007, the Reserve Bank can prescribe the SLR for SCBs in specified assets. The value of such assets of a SCB shall not be less than such percentage not exceeding 40 per cent of its total DTL in India as on the last Friday of the second preceding fortnight as the Reserve Bank may, by notification in the Official Gazette, specify from time to time.

RBI can very well increase the SLR by another 4 basis points on an ongoing basis say for a period of three years. (18% to 22%). Additional 1% increase in SLR will contribute (suck the liquidity) roughly by Rs.1.5 lakhs crore. So, the government can easily get the required funds of Rs.6 lakhs crore within 3 years. It is not something new that the actual SLR was above 22% in many earlier periods. Sucking liquidity by selling government securities definitely will help RBI to augment the resources for the government requirements. Interest rates/lending rates will also come down reasonably which the RBI expects.

Conclusion

As a matter of fact, the government is yet to realize the significance of PSBs which is more predominant in measuring the economic growth in terms of GDP and the services rendered especially under social banking is the vital factor. It is the Public Sector banks which can invest, generate employment, provide infrastructure at cheaper rates and provide reservation in jobs. It is the Public Sector Banks which provide cheapest loans for agriculture, education, housing, small and medium and micro enterprises in the whole country including theremote and rural areas.

As the role of PSB's in the present economy is more predominant in constituting more than 65% of the banking system, any initiatives like merger or privatization definitely leads to closure of bank branches, delay in timely lending, man power dislocation /retrenchment, distortion of working atmosphere, additional work causing mental and physical agony, lavish expenditure on merger process and setback in the present set up of NPA recovery drives, affecting the interest of minority shareholders will definitely affect the PSBs to a larger extent in the future. Government being a majority shareholder has more responsibility to controlthe cost effects of merger/privatization issue to save the PSBs.

In general, performance of PSBs is always significant and their relative performance is to be assessed according to the vibrant changes in the global and domestic economic scenario as a whole. When the economy is slowed down, policies regulated by the government as well as the RBI are to be more flexible for an easy recovery drive. The premier policy think tank of the Government of India NITI Aayog's report on privatization of banks added fuel to the fire. Itis doubtful whether it has analyzed the performance of selective banks recommended for privatization more realistically and scientifically. There seems to be no logic on their presumptions which are purely based on simple arithmetical parameters fixed on their own.

We demand the government to seriously review their plan on privatizing public banks by considering important points discussed above. We are of the opinion that the activities of entire functioning of lead bank social set up would be more disturbed if IOB is privatized. As IOB is the lead bank in Tamil Nadu with more number of rural branches than any other public sector banks, the economic activities built by the bank especially under rural and semi urban areas would become vacant or spoiled in future. Further, the bank has made successful turnaround in the recent periods. Many of the State & Central Government authorities including the Public as well as its traditional Customers have more faith and expectations from the bank to continue its services in meeting all the economic and social obligations as a successful public sector bank with its renowned slogan "**Good People to Grow With**"

Centre for Financial Accountability (CFA) engages and supports efforts to advance transparency and accountability in financial institutions. We use research, campaigns and trainings to help movements, organisations, activists, students and youth to engage in this fight, and we partake in campaigns that can shift policies and change public discourse on banking and economy.

We monitor the investments of national and international financial institutions, engage on policies that impact the banking sector and economy of the country, demystify the world of finance through workshops and short-term courses and help citizens make banks and government more transparent and accountable, for they use public money.

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