Report of the webinar

How they are Bleeding the Public Sector Banks & Road Ahead

26th December | 6 pm - 8 pm

Save Public Sector Banks!

AIBOC

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Co-organized by All India Bank Officers Confederation and Centre for Financial Accountability

Join Online Meeting

How they are Bleeding the Public Sector Banks & Road Ahead

26th December
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Speakers:

Rupam Roy
Gen Sec, AIBOC

Jayati Ghosh
Senior Economist

Thomas Franco
People First,
Former Gen Sec, AIBOC

Chirashree Dasgupta
Asst Prof, JNU

R Ramakumar
Prof, TISS

Anirban Bhattacharya
Centre for Financial Accountability
Moderator

Join over Zoom

Meeting ID: 838 6660 3634
Passcode: 736760

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How They Are Bleeding the Public Sector Banks & The Road Ahead

On the 26th of December 2023, an online meeting was co-organized by the All India Bank Officers Confederation (AIBOC) and the Centre for Financial Accountability (CFA) to discuss the issues faced by Public Sector Banks (henceforth referred to as PSBs) and the road ahead.

The panel of experts included eminent scholars as well as representatives from the AIBOC (past and present). With an audience count of over 200 people, the occasion presented a perfect forum to discuss such a topic. What was common across everyone present in the forum was that they put the people first.

While introducing the discussion Anirban Bhattacharya from CFA said that while PSBs have been bearing the brunt of policy prescriptions such as privatisation, actions against unions, credit write-offs to big corporations under successive governments of different shades. However, what has been an alarming trend with the present government is that such pertinent issues are carefully drowned out in media noise with divisive agendas. During UPA times, the issue of NPAs moved the masses and was being actively discussed. Now, with NPAs ballooning to far greater proportions, massive write-offs are being gifted to wilful defaulters who are invariably large industrialists - just to manipulate the banks' balance sheets at the cost of small savers and borrowers. But these issues find hardly any mention in our prime times. From overburdened public bank employees being called “inefficient”, to farmer suicides amounting to almost 30 suicides per day in the last nine years - people's problems are consciously hidden from public scrutiny.

A. Broader trends in the financial architecture

There is a contradiction, a tussle, between the needs of neoliberalisation and the needs of crony capitalism, a contradiction that is most advanced in India, said Prof. Jayati Ghosh while speaking on the larger canvas within which the discussions of the day could be plotted. She said that we need PSBs for inclusion and the critical savings function. The lack of access to banking reduces both. The pattern of lending to the informal sector - lack of viability and denial of access to MSMEs deeply hampr productivity.

These apart, she pointed towards three disturbing trends:

a) Financial fragility - All banking regulations are torn up. While most countries across the world are going back to central banks and relying less and less on private banks. It is crucuial to reflect upon and correct our trajectory
b) We got rid of development banks and made commercial banks exposed to risky investments. Thereby we are risking investments needing long gestation periods.
c) Finally, climate finance goes entirely to cronies which should go actually to PSBs instead for building sustainable projects.

Prof. Chirashree Dasgupta from JNU ended the discussion with a few patterns that are discernible in the trajectory of India’s banking history. Corroborating Jayati Ghosh, she pointed towards the overexposure to crony capital. After the Hindenburg findings, it was reported that the SBI is alarmingly exposed to the Adani and how the PNB too was exposed by shouldering the entire airport segment of the Adanis. In comparison it was found that the exposure of the private banks was negligible!

Between the 1950s and 1980s, she said that the lending to agriculture had increased and the same to industry had increased far greater. She said it was not nationalization alone that had characterized the banking policy during this time, it was rather the regulatory architecture that came up alongside, the FEMA, the TERA and the anti-monopoly law – each designed to regulate capital to the needs of the country. These were systematically done away with over the decades. Today we have a reached a time, when particularly since the 2008 financial crisis, and particularly the last two NDA regimes, when we are seeing the banking sector being mobilized to heavily extend loans towards mega infrastructure which is being seen as the pivot of development. This is being done, she said, without determining what kind of infrastructure we actually need. Do we need nodal infrastructure massive highways and ports and airports? Or do we need arterial or social infrastructure – more schools, hospitals, connectivity roads and so on? Crony capital in nexus with the government seem to be favouring the former.

Another aspect of the larger trend is that there is very little effort to increase the vibrancy of the cooperative banks which could have served a very crucial purpose and leaving commercial banks to take over. Prof. R Ramakumar spoke of this trend as the share of credit that co-ops supply is now at 30% of the overall credit, which used to be more than 40% around 10 years ago. He said that we need to worry about how we can protect the essence the the people's structure of co-op banking. RBI's target is to transform them into small financial banks - that's what neoliberalisation does. There is also this tendency, he said, to centralise administration and power, thereby weakening the federal structure. One such measure in violation of the Constitutional structure has been the forming of the Ministry of Co-operation in 2011, to be headed by Mr Amit Shah.

B. The challenges faced by the public sector banks & their employees

The struggles of the Public Sector Bank employees and recent discernible trends in terms of lending formed the main issues that Thomas Franco touched upon. He was the Former General Secretary of AIBOC. He currently coordinates the Peoples Commission on Public Sector and Public Services, and is a part of People First. The number of employees to provide such a service, he said, is rather inadequate in the public sector. The per-employee customer ratio at HDFC decreased to 478, while for ICICI and Axis Bank, it dropped even further to 353 and 325, respectively. For SBI the figure is 2035! The new contractual arrangements and replacing branches with "correspondents", he said, is also hurting the SC/ST community as it is affecting reservation that has been a guarantee to counter historical discrimination towards marginalized communities.

He also explained what we mean when we say that the banks are bleeding while we see profits by both HDFC bank and SBI exceeding Rs. 50,000 crores in just the last FY. He for instance spoke of the number of MUDRA loans given in the last 8 years (44 crores to the tune of Rs. 24.4 lakh crores of money). The number of loans covered in the scheme far exceeds the actual number of loans granted. This implies that several loans have not been guaranteed at all. And even with a guarantee, the bank gets a return of roughly 75% of the loan amount.

Rupam Roy, the present General Secretary of All India Bank Officer's Confederation also pointed towards the gross manipulations and a dangerous trend. He said that it is the public sector banks that take on the responsibility of implementing the flagship programs of the government. The PSBs handled 97% of the Jan Dhan Yojna. Same s the trend in the other schemes: PBSBY (96%), PMJJY (98%), PMKJY (95%), Street vendors (98%) – schemes that win the government votes. But when it comes to government deposits, those are going to the private banks. The public sector banks also took the burden of demonetization. And then came the mergers. Each of these are major opportunity loss of course while simultaneously being severely understaffed. While we were handling these responsibilities, private banks focused on digital banking and were alluring our depositors away from us. Our market share dropped from 74% in 2017 to nearly 50%.

C. Who is hurting in the shifts that are being engineered

Such a deliberate understaffing, said Rupam Roy, is definitely bleeding the public sector banks and taking a toll on the overworked employees. Non Banking Financial companies, he said, is taking advantage of the understaffing of the public sector banks and are prowling on the rural borrowers forcing extremely high interest rates on them while the corporates are getting loans for abysmally low interest rates.

Almost 30% of the bank's credit is extended to Non-Banking Financial Companies (NBFCs), said Thomas Franco at a 10% to 12% rate of interest. But these NBFCs then charge 30% to 36% when lending to people. There was a time when banks were not allowed to lend to NBFCs, money-lenders or pawn-brokers; on the principle that banks cannot lend for further lending down the line. The recovery rate of this is anyway meagre.

Speaking particularly on the plight of farmers and the state of agricultural and priority sector credit, Prof R Ramakumar from TISS started with reference to how Liberalisation tinkered with the 4:1 ratio of bank branch expansion, which used to be an expansion policy where 4 rural branches were created for each new urban branch. Along with this, the dilution of the priority sector credit and the phasing out of differential interest rates all unfolded simultaneously. Following a policy of financial inclusion since 2005, he said, there has been an increase in agro credit, which is true in the aggregate. Upon disaggregation, however, a large part of it went to non-farmers like joint stock companies, processing companies and pesticide-insecticide-dealers - a sharp rise in indirect credit, which was never a part of the priority sector. For instance, if there is a stipulation of 18% as the weight of agro credit within the 40% of the priority sector it is seen that 13.5% is supposed to be direct credit and 4.5% is going to be indirect credit. Now this 4.5% is fully utilised by the banks, sometimes even exceeding that. A lot of provisions were made for banks to indiscriminately increase the indirect credit which does not go to farmers. Also, interestingly, the largest share of agro credit is given in the months where farming activities are the least, indicating that the loans are hardly ever going to the farmers.

Most of the farmers suicides, said Prof. Ramakumar, happen when farmers take less than Rs. 2 lakhs loans, which constitutes 40% of the total direct credit to agriculture. These small and marginal farmers make up nearly 85% of the agricultural sector. 60% of the loans are much greater than that, which is not an amount a small or marginal farmer borrows. The All India Debt and Investment Survey of 2019 shows that the share of the formal sector in the total debt portfolio of cultivators or rural households is almost the same as it was in the 1990s.