



## ESSAY WRITING

### PRIVATISATION OF BANKS

#### Why in News

The **Union Budget 2021** has announced the **privatisation of two public sector banks and one general insurance company** in the upcoming fiscal 2021-22.

The move, coming after 51 years of **nationalisation of government-owned banks in 1969**, will give the private sector a key role in the banking sector. Presently, India has **22 private banks** and **10 small finance banks**.

#### INTRODUCTION

**Privatization means** selling Whole or Partially a Govt. Sector Company to Private Sector. Or in Other Words, Transferring Ownership to Private Sector. This Step Was also taken in 1991 in New Economic Reform to Reform **India's** Economy.

Privatization is considered to bring efficiency and accuracy to a company. The market share of private banks on loans has risen to 36% by 2020 from 21.26% in 2015, while the share of public sector banks has dropped to 59.8% from 74.28%.

Competition has intensified after the RBI has allowed more independent banks since the 1990s. PSBs have higher NPAs than private sector banks. PSBs have underperformed in comparison to private banks.

#### Background

The government decided to nationalise the **14 largest private banks** in 1969. The idea was to **align the banking sector with the socialistic approach**.

State Bank of India (**SBI**) had been nationalised in 1955 itself, and the insurance sector in 1956.

Various governments in the last 20 years were for and against privatisation of Public Sector Undertaking (PSU) banks. In 2015, the government had suggested privatisation but the then **RBI** Governor did not favour the idea.

The current steps of privatisation, along with setting up an **Asset Reconstruction Company (Bad Bank)** entirely owned by banks, underline an **approach of finding market-led solutions to challenges in the financial sector**.



## Reason for Privatisation

### Degrading Financial Position of Public Sector Banks:

Years of capital injections and **governance reforms have not been able to improve the financial position of public sector banks significantly.**

Many of them have **higher levels of stressed assets** than private banks, and also lag the latter on profitability, market capitalisation and dividend payment record.

<i>Pros Of Privatisation</i>	<i>Cons Of Privatisation</i>
<ul style="list-style-type: none"> <li>It reduces the state's financial burden by freeing it from losses of SOEs and reducing administrative size.</li> </ul>	<ul style="list-style-type: none"> <li>Lack of proper norms</li> </ul>
<ul style="list-style-type: none"> <li>It enables the government to mop up funds.</li> </ul>	<ul style="list-style-type: none"> <li>Ambiguity of objectives</li> </ul>
<ul style="list-style-type: none"> <li>It helps the government to trim the size of the administrative machinery.</li> </ul>	<ul style="list-style-type: none"> <li>Wrong timing &amp; Wrong environment</li> </ul>
<ul style="list-style-type: none"> <li>It enables the government to concentrate more on other essentials state functions.</li> </ul>	<ul style="list-style-type: none"> <li>Lack of political consensus</li> </ul>

<i>Pros Of Privatisation</i>	<i>Cons Of Privatisation</i>
<ul style="list-style-type: none"> <li>It helps in accelerating the pace of economic development as it attracts more resources from the private sector for development.</li> </ul>	<ul style="list-style-type: none"> <li>Wrong labor strategies</li> </ul>
<ul style="list-style-type: none"> <li>It can lead to better business management</li> </ul>	<ul style="list-style-type: none"> <li>The problem of culture change</li> </ul>
<ul style="list-style-type: none"> <li>It can also encourage trade &amp; entrepreneurship.</li> </ul>	<ul style="list-style-type: none"> <li>Prevalence of monopoly elements</li> </ul>



## Issues with PSU Banks

### High Non-Performing Assets (NPAs)

After a series of mergers and equity injections by the government, the performance of public sector banks has shown improvement over the last couple of years. However, compared with private banks, they continue to have **high NPAs and stressed assets** although this has started declining.

## Issues with PSU Banks

**Impact of Covid:** After the Covid-related regulatory relaxations are lifted, banks are expected to report higher NPAs and loan losses.

As per the RBI's recent **Financial Stability Report**, gross NPA ratio of all commercial banks may increase from 7.5% in September 2020 to 13.5% by September 2021. This would mean the government would again need to inject equity into weak public sector banks.

### Issues with Private Banks

- **Industrial Credit and Investment Corporation of India (ICICI) Bank** MD and CEO was sacked for allegedly extending dubious loans.
- **Yes Bank** CEO was not given extension by the RBI and now faces investigations by various agencies.
- **Lakshmi Vilas Bank** faced **operational issues** and was recently merged with DBS Bank of Singapore.

The government should also be **cautious** and **ensure enough safeguards** to ensure pre 1960s situations of rampant private banks failures do not re-emerge. Few steps which can be taken are as follows:

- Strengthen RBI's regulation over PSBs.
- Implementation of **Kotak Committee Recommendations** on Corporate Governance of Banks.

## Conclusion-1

Privatisation is likely to succeed in the present changed scenario. Reasons are as follows.

Private banks are now **more responsible towards the fulfilment of social goals** rather than narrow profit motives.

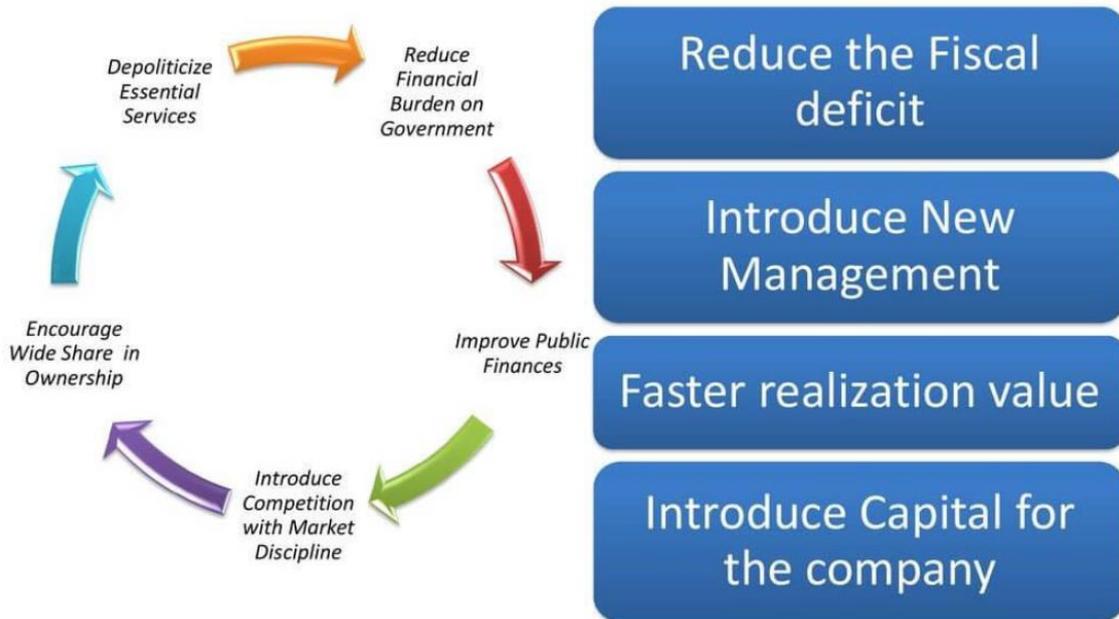
Private banks are now **with more diverse loan portfolios** and taking the **help of technology** to **increase their customer base**.



## Conclusion-2

In order to improve the governance and management of PSBs, there is a need to implement the recommendations of the **PJ Nayak committee**.

Rather than blind privatisation, PSBs can be made into a corporation like **Life Insurance Corporation (LIC)**. While maintaining government ownership, this will give more autonomy to PSBs.



## CORRECT THE SENTENCES

Link the Life with Law

• I am tired as *I am working* since 7 O'clock in the morning.

1. When it was morning they decided to *put at an inn*.

- (a) put out in
- (b) put off at
- (c) put at
- (d) put up at



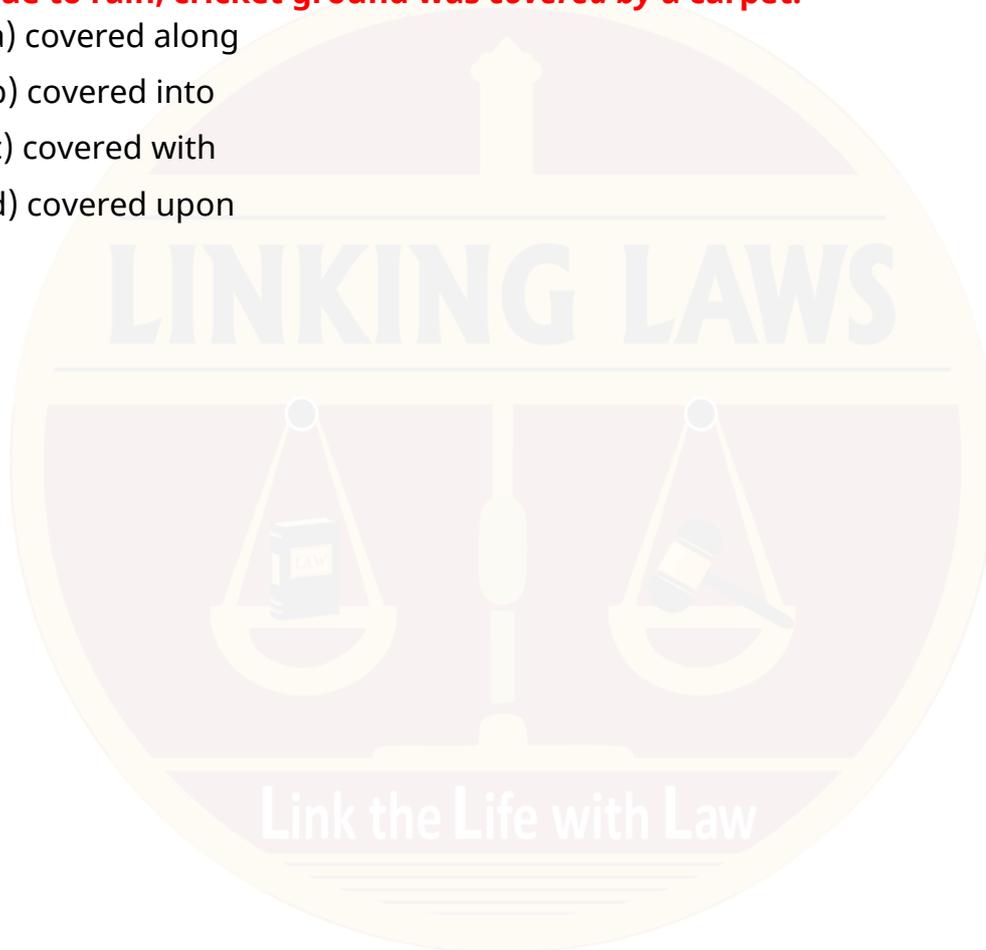
The furniture in this room *are* made of teak.

2. **Sheela told her teacher to explain the chapter once again.**

- (a) ordered her teacher
- (b) invited her teacher
- (c) asked her teacher
- (d) said to her teacher

3. **Due to rain, cricket ground was covered by a carpet.**

- (a) covered along
- (b) covered into
- (c) covered with
- (d) covered upon



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