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One day National Level Conference on

Recent Innovation in Commerce, Economics and Management

Organized by

PG Department of Commere [SF]

CARDAMOM PLANTERS' ASSOCIATION COLLEGE
(Re-accredited with 'B' Grade by NAAC)
Pankajam Nagar, Bodinayakanur - 625 513

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About Our College

The Cardamom Planters' Association College affiliated to Madurai Kamaraj Univers started functioning on 19th July, 1974 with two sections of pre-university course. Our college w re-accredited with 'B' grade by NAAC in the year 2016. Our 'College Society' has acquired mo than forty three acres of land located about three kilometres west from Bodimayakanur on t Madurai - Munnar National Highway. Our College is located at the foothills of western Gha which exhibits geomorphic features of immense importance with unique bio-physical a ecological processes. A significant characteristic of the western Ghats is its exceptionally high lev of biological diversity and endemism. Bodinayakanur is a popular place for sweet fragrance not only cardamom but also many spices. Our college is at present blessed with more tha 40 Doctoral Professors working with much enthusiasm and potential energy.

Our college is governed by a team managing committee under the Presidentship Sri.S.V.Subramanian, Sir.P.V.Karuppiah is our Vice-president, Sri.S.Ramanathan is our belove secretary of Our College is being ably administrated by Dr.T.Rajakumaran as its Principal. Th institution is dedicated to the cause of high quality in education, producing professionalist industrialists, scientists enormously with high sense of decorum.

The motto of our college is LIGHT, KNOWLEDGE and GROWTH. The aim of the college is t provide value based quality education to the backward and deserving students in and aroun Bodinayakanur

About Our Department

The management of our college established the B.Com (CA) degree course under the self-financing scheme in the year 2000 and Post-Graduate degree course in the year 2015-16. At present for about 230 students are pursuing their studies in our department with pertinacity. The staff members are working with dedication to bring in a high quality in teaching and learning activities.

The PG department of Commerce [SF] organizing a One Day National Level Conference conducted on 15th October 2018.

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Managing the (Bank) Mangement

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Abstract

Indian economy faces its worst twin balance sheet problems in history. With BASEL III norms are just 2 years away the heavily stressed balance sheet of bank is stranded with rising NPA's and bad loans. In this situation banks have to function at its best to become a game changer to the economy and also to meet the BASEL III norms. This paper focus more on challenges that too especially on the management side challenges along with its reasons and also proposes a combination of steps to overcome the managerial challenges. Since Indian banking sector is dominated by the Public Sector Banks (PSBs) this paper to focus more on public sector banks.

Keywords: PSBs – Public Sector Banks, NPAs – Non-Performing Assets, BBB – Bank Board Bureau, PCA – Prompt Corrective Action

Introduction

Indian banking sector is the one which always dominant by the public sector due to various reasons like majority rural population, catering the poor and economically weaker sections more, avoid banking services to wealthy few etc. All these results in the continuous rise of public banks in the last 7 decades. Even after the 1991 LPG Reforms (Liberalisation Privatisation and Globalization) still there are 19 PSBs which accounts for more than half of the total banking customer base in India. In that, government owns majority stake in PSBs which accounts for more than 2/3rd of banking assets. But the PSBs faces their rising NPAs since early 2000's. Even the government 2.11 Lakhs Crore funding to lift banks out of stressed bank sheets not yields desired steps. Though many favors merging of banks it is still debatable while merging under-performers. Today NPA's stand around Rs. 7 lakhs crore which roughly 10% of all the loans. Banks today faces more of a management kind of challenges which can be solved by long pending structural reforms rather than the cosmetic changes. This paper focuses on the challenges at the management levels along with its reasons and better solutions to tackle management challenges.

Challenges faced in the management level by PSB's

Lack of Loan Appraisal and Monitoring Systems

Many of the PSB's works on the basis of targets. The targets are seen in number of lending given not based on the overall performance of the given loan. This is grave especially for loans related to government schemes. Government schemes like Pradhan Mandri

Awas Yojana, Pradhan Mandri MUDRA Yojana where the prime examples of these approach. Many of the infrastructure projects go for even 20 to 30 years without paying interest are also due to the lack of loan appraisal and monitoring system.

Domination of Government Ownership

All the PSB's government stake stands at 51% and or above. This makes the banking sector vulnerable to the instabilities like top management positions not given security of tenure, frequent intervening in the management processes, protecting the interests of employees rather than seeking performance, competition between PSB's in many areas, lack of bringing in outside talent to top position except on few rare occasions, political pressure, policy of announcing waives and freebees on own and ignoring sound business principles etc.

Dual Control

Reserve Bank of India and Department of Financial Services under Ministry of Finance both involve in the overall management. Generally RBI takes care of the Governance aspects of banking sector and Department of Financial Services takes care of the regulation aspects. Dual control is neither advisable nor reliable. This creates ambiguity in at the top level of management.

Banking Laws

Indian banking laws like RBI Act, Banking Regulation Act, State Bank of India Act, Bank Nationalization Act, etc. needs urgent revisit to strengthen the managerial aspects of Banks as these laws where decade old.

Functioning of BBB

Though the Bank Board Bureau has formed and starts functioning the merger of SBI with its associates and the recent Bank of Baroda, Dena Bank and Vijaya Bank mergers have initiated by the government not by the Bank Board Bureau

Positioning of Chairman and Managing Director

At present the position of Chairman and Managing Director is not split and they often interfere in to each other domain and also create and command on their own especially in difficult and turbulent scenarios in banking administration.

Rivalry between PSBs

In a country where the majority of the customer base of bank lies with PSBs one cannot eliminate the possibility of inter-governmental bank rivalry.

Misgovernance and Policy Paralysis

Indiscriminate lending by few PSBs are one of the major reason deterioration of asset quality of banks. This also leads to willful defaulting of loans and also allows the upcoming heads to extend the time period which ultimately hampers the performance of the banks.

The recent PNB Scandal is the great example for this.

Apart from these core management challenges PSB's also faces minor challenges like rivalry between PSB's, seniority over merit in promotion, weak loan recovery system (though Insolvency and Bankruptcy Code is enabled it is still not activated in all types of loans) etc.

Proposed solutions for the better management of PSBs

Fixing Target Based on the Loan Performance: This makes the management not only responsible for lending but also responsible for recollecting. This will also develops the better banking practices among people and reduce NPAs.

Rationalization of Manpower and Infrastructure: It is one of the most needed reform in the present technologically driven banking sector. The banking sector today rely on computers and super computers to perform base level operations and need human intervention only at the level of managerial in nature. Today one ATM/ Cheque collection machine completes 2-3 clerk work a day.

There are many occasions where the merged banks and also the existing banks face lack of infrastructure in few densely populated areas with far few man power and also the vice versa is also true in few occasions this also has to be reduced to further better management and administration.

Reducing Government Stake: reduce to the level were the majority of the stake holder views are accounted rather than government. Based on many economist's predictions that level would be 33% from the current 51%. This will induce the better participation of stake holders especially minority stake holders in the decision making process, this will allow the bank to strive for the prudent banking.

Abolition of Department of Financial Services: Former Chief Economic Advisor [1] is of the view of abolition. Though the Department's work was impeccable while nationalization of banks in 1960's the present function of the Department is questionable especially when RBI focusing on governance and transparency of the system where the Department is not allowing bank to do so (though it accepted prudent banking).

Vesting the management of the Banks in one hands not only improves better balance sheets but also provides stability and accountability to the banks.

Freedom of Management: Mergers, infusion of funds into the banking system and other measures have to be complimented by freedom of management. Adequate freedom is the first breath for any entity that too it is especially necessary for the entity which undertakes banking. Managers are allowed to take risks and reduce the challenges they face. Absence of risk taking is one the bad indicators for the prudency of banks.

Splitting the role of Chairman and Managing Director: It is necessary to avoid internal ambiguity and internal power struggle.

Fixing their Tenure: Freedom has to be coupled with fixed tenure for top positions like 5 year for Chairman and 3 year for Managing Director. This will allow the managers to make visible changes and also provide adequate time to understand and resolve the challenges faced by the banks.

Review of Banking Laws: The banking systems structural change would be incomplete if the laws left as it is. RBI Act has to be amended to strengthen the position of RBI to govern and control the banks and also Banking Regulation Act and SBI Act also has to be amended for enabling the same. Repealing of the Bank Nationalization Act will further enable the smoother functioning.

Establishment of Bank Investment Company (BIC) [2]: Currently the Bank Board Bureau is running the PSB's. Since there is no clarity over the powers and functions of the Board, the newly created BIC will have the tooth and nail to curb the banking irregularities. This BIC will completely comprises of banking officials which allows the minimum government interference for maximum effectiveness and efficiency.

Introduction of Narrow Banking Concept [3]: It is the concept where weak banks will be allowed to place their funds only in the short term and risk-free assets. This will complement the RBI's ICU measure of Prompt Corrective Action (PCA). Both the PCA and Narrow Banking will force the banking system to follow rule based banking system rather than the personality based banking system.

Introduction of Islamic Banking: This is one area where India explored much less. With Indians are the top most Non-Citizen people in majority of the gulf countries the government if set up an Islamic bank will get the sand storms of Islamic money and being a world's 2nd highest Shia country in the world it can also attract the local Islamic population into the banking system which is largely left out of the banking networks. Introduction will provide the government an adequate capital for further reforms and management.

Promotion of Merit rather than Seniority: Seniority may provide job security but the banking system is not just about protecting jobs but about the better functioning of economy as a whole. So the performance of the bank will improve only when the talented get selected and promoted to the top most managerial positions.

Creating Adequate Loan Appraisal and Monitoring Systems: This system enables the banks to properly assess and also able to monitor the performance of given loans and also makes a unified system for further loan approvals. This system comes handy especially for the long pending infrastructure and power sector projects which have long gestation period.

Forensic Audits: To bring out the further problems in the sector and also to ensure the proper functioning of the banking sector.

Conclusion

The growth of the Indian economy is largely related on the overcome of the Twin Balance Sheet problem. Rather than addressing on cosmetics it is the high time for the structural changes since banking challenges affects the larger macro-economic stability. Right steps, timely and concerted actions and a revival of the banking management as whole will put an end to the further minor challenges in the Indian banking sector.

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