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1. Public Sector Bank's Future in The Country

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ABSTRACT

In India, banks have been crucial to the country's economic expansion. Public sector banks (PSBs) have been at the forefront of providing banking services in the most remote regions of the nation and mobilizing resources from far rural communities since the 1970s. PSBs have borne the brunt of the social agenda's burdens without receiving any funding.

Thus, the government has a right to periodically recapitalize PSBs in order to preserve their credibility, as they represent almost 70% of all banking activity in the nation. The necessity for Public Sector Bank restructuring may be explained by looking at the increase of non-performing assets (NPAs) and how that affects PSBs' financial degradation over time. This is because the government may need to take similar measures again in the future. The question of whether the Government of India's restructuring act creates globally competitive "too big to fail" banks will be addressed by the improvement in PSBs' financial performance metrics during the coming years. The future of public sector banks in the nation will be covered in this essay.

KEYWORDS

Public, Sector, Banks, Future, Country, Services, Government, Growth, Financial.

Introduction:

Banking Defined:

The act of accepting deposits from the general public for the purpose of lending or investing is known as banking. Banks facilitate economic growth by aggregating the community's tiny, dispersed savings and distributing them as loans among businesses. Banks thus handle the tasks of credit intermediation, payment netting, and settlement. In addition to acting as maturity converters, banks also handle deposits, which are often made for short terms whereas loans typically need long-term promises. Another critical function of banking is the management and oversight of lending-related risks. [1]

The Future of India's Banking Sector:

The government made mention of privatizing two public sector banks in its current annual budget and allocated 20,000 crore (one crore is equal to ten million rupees), or around $2.6 billion, for their capitalization. The government think tank NITI Aayog will be involved in the selection process to determine which two banks would be selected, and the process is now ongoing.

There are now only two government-owned banks instead of the previous twelve. The procedure commenced in April 2017 when the State Bank of India amalgamated six of these banks, comprising the Bhartiya Mahila Bank for women and five partner banks.

Therefore, the remaining private sector undertakings (PSU) banks—the State Bank of India, the Bank of Maharashtra, the Indian Overseas Bank, the Punjab & Sind Bank, UCO Bank, and the Central Bank of India—will be the ones to undertake the impending privatizations. The other four are all regional players and are smaller; the latter two are rather large and have a national presence.

India is leading the world in digitalization. The payment industry and the distribution of financial services goods are home to a large number of financial technology enterprises. The National Payments Corporation of India's Unified Payments Interface, or UPI, is one example of a successful innovation. It is an instantaneous real-time payment system that enables mobile users to transfer money between banks and is governed by the central bank of India.

Digital is becoming essential to all financial services, including lending, at all banks. For instance, the State Bank of India now uses digital channels for 67% of its transactions. Given the advancements in data analytics, machine learning, and artificial intelligence over the next few years, collaboration between banks and fintech startups is expected to yield even more innovation. [2]

Despite the consequences of the pandemic and some of the issues that have rocked the industry, non-banking financial companies, or NBFCs, have a bright future. They will most likely need to work more closely with the major commercial banks going forward.

In accordance with RBI Guidelines, banks categorize their non-performing assets into three groups based on the ageing of the account and/or the securities held: sub-standard, doubtful, and loss assets.

A bank's equity capital acts as a loss absorbent buffer to protect against losses from poor loans. It must be at the levels necessary to absorb projected losses and keep the banks from going bankrupt. The Indian government has to repeatedly recapitalize public sector banks in the past in order for them to both protect unsecured creditors (depositors) and meet the BASLE Norms, which are international capital requirements.

The government had to restructure these banks to prevent PSBs from needing recapitalization on a regular basis. [3]

In 2018 Government of India initiated the process of consolidation of public sector banks. The following mergers have taken place since 2019:

- State Bank of India +Merger of Associate Banks
- Bank of Baroda+ Vijaya Bank+ Dena Bank
- PNB+OBC + United Bank of India
- Canara Bank+ Syndicate Bank
- Union Bank + Andhra Bank+ Corporation Bank
- Indian Bank + Allahabad Bank

The main objective for consolidation of public sector banks is to have banks with scale for building a $5 trillion economy. The secondary objectives are as under:

- Enhanced risk appetite
- Thrust on Next Gen technology for banking
- Wider offerings with enhanced customization
- Better ability to raise resources from markets (This is very important that instead of so many banks only a few big taps the capital markets to raise equity to keep up the sentiment of investing community). [4]

Review of Literature:

Devika (2020) The lending procedures used by public sector banks are flawed, and they do not adhere to fundamental values.

Recapitalization helps public sector banks and lowers the degree of credit stress. However, an increase in non-performing assets will shorten the usefulness and value of capital infusion. [5]

Bhatacharya et al. (2001) looked at how banks invested in government securities throughout the post-reform era and how credit flowed differently to different industries. Using a variety of variables, including the share and rate of growth of investments, government securities, advance prime lending rate, capital, reserves, deposits, borrowings, bills payable, profit, and so on, they employed the theory of financial liberalization in their study to determine the significant differences between pre- and post-reform scenarios.

The results indicate a structural break in the flow of bank deposits, credit, and investment as well as an increase in the ratio of deposits to national income in the post-reform era. Furthermore, the amount invested in government securities exceeds the Statutory Liquidity Ratio (SLR) that is required. [6]

Objectives:

- To Study the Public Sector bank’s future in the country.
- The Government of India initiated the process of consolidation of public sector banks.
- The Future of India’s Banking Sector.

Research Methodology:

This study's overall design was exploratory. The research paper is an endeavor that is founded on secondary data that was obtained from reliable online resources, newspapers, textbooks, journals, and publications. The research design of the study is mostly descriptive in nature.

Result and Discussion:

Public Sector Bank:

Banks classified as public sector are those in which the government owns the majority of the shares. On the stock exchange, 51% of the shares are listed. The majority is made up of shareholders of private sector banks. Six banks were nationalized in 1980 and fourteen banks were nationalized in July 1969 in accordance with the Banking Companies Act. We refer to these as public sector banks. Banks in the public sector are split into two groups. Public sector banks are given public control over their operations by nationalized banks. Nationalized banks are the location of this work. [7]

Future of Public Sector Bank: Issues and Challenges:

The goal of the government's bank restructuring efforts is to strengthen the institutions after they were severely impacted by an increase in non-performing assets. Even after restructuring, the public sector banks' issue still exists. From this point on, the threat will be felt more strongly. Over 10 lakh crores of non-performing assets (NPAs) are expected to be created in the next 2 to 3 years as a result of the effects of COVID-19 on the economy and the ensuing dispensation that was made possible by the government's incremental limits guarantees and account restructuring. In fact, some economists have gone so far as to claim that Indian PSBs are poised to explode. Banks, particularly PSBs, which are still largely under government direction and control, face numerous obstacles in their efforts to enhance their operations and boost profitability. [8]

In order for PSBs to function and have remote oversight of significant loan disbursements, they must also be granted greater autonomy. A holding company for public sector banks has been suggested in a number of ways by various committees. The intended function of helping banks restructure their business strategy and deal with the problems associated with stressed assets has not yet been assigned to the Bank Board Bureau, despite its formation. The selection of board members for various PSBs was required.

Unfortunately, because there are still a lot of open positions, it has not been able to quickly locate qualified applicants for PSBs' top positions of Chairman, Managing Director, and Executive Directors. For a few more quarters, the RBI's monetary policy must also be accommodating in order to support banks in having sufficient liquidity for lending.

Banks themselves must use technological solutions to improve their internal control mechanisms and risk management tools. In FY 20, frauds cost banks Rs. 1.86 lakh crore, of which 80 percent was borne by public sector banks.

Performance of Scheduled Commercial Banks in India:

Public sector banks (PSBs) own over 70% of the banking assets in India, making them the dominant player in the banking industry. The fact that total bank deposits climbed by 14.9% in just one year (2011–2012) illustrates the rapid speed of deposit growth. Furthermore, during the same period, scheduled commercial banks (SCBs) made investments in government and other approved securities, and overall bank credit rose at an impressive rate of 16.1% and 18.1%, respectively. According to the most recent information available, SCBs as a group expanded their branch network by 10.1% during 2011–12, while new private sector banks saw the greatest growth rate in their branch network, at 18.9%.

All SCBs saw a 16.1% rise in capital base during 2012 compared to the prior year. Eight public sector banks and fifteen private sector banks have demonstrated higher return on assets (ROA) than the benchmark rate of 1%. According to these numbers, international and private banks have established themselves in the Indian financial sector. Additionally, these banks began establishing new benchmarks for the whole banking industry in terms of profit per employee, return on capital, and adequate capital. The World Economic Forum attributes the reasonable stability of the Indian banking system to prudential laws and incremental reforms, as noted in its 2008 Financial Development Index. Table 1 summarizes the performance of the various commercial bank groups during a three-year period: 1991 marks the start of the reform process, 2002 marks the end of the reform process after a decade, and 2012 represents the most recent performance. The terrible performance of every bank group before to the reforms is shown in Table 1, although private banks outperformed the rest. Across all bank groups, the profit per employee has risen steadily since 1991, while the cost-income ratio has secularly declined. [9]

Table 1: Profitability and Cost-based Indicators of Efficiency:

Bank Groups	Net Profit per Employee (Rs '000)			Cost-Income Ratio (in %)		
	1991	2002	2012	1991	2002	2012
SBI and Associates	5.04	121.43	547.12	94.46	52.11	45.13
Nationalised Banks	4.76	102.58	675.82	93.89	56.65	43.05
Private Banks	7.42	170.94	1060.08	92.63	51.46	46.73
Average	5.74	131.65	761.01	93.66	53.40	44.97

The best way to characterize the situation of the Indian banking industry up till the advent of liberal economic policy is financial repression.

The different restrictive policies in place had prevented international competition from reaching the banking sector. The goal of the banking sector reforms in India was to bring stability and efficiency to the industry. The net profit to total assets ratios for the public and private sector banks over the past ten years are shown in Table 2.

Based on their average figures, it can be seen that both bank groups' profitability has improved overall. In contrast, the private sector banks have improved more than the public sector banks; in 2012, 16 out of 20 private sector banks had greater net profit to asset ratios.

Table 2: Net Profit/Total Assets (in %) of Public Sector Banks

Banks	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Allahabad Bank	0.32	0.59	1.31	1.20	1.28	1.11	1.18	0.79	0.99	0.94	1.02
Andhra Bank	0.97	1.63	1.72	1.59	1.19	1.13	1.02	0.95	1.16	1.16	1.08
Bank of Baroda	0.77	1.01	1.14	0.71	0.73	0.72	0.80	0.98	1.10	1.18	1.12
Bank of India	0.72	1.12	1.19	0.36	0.62	0.79	1.12	1.33	0.63	0.71	0.70
Bank of Maharashtra	0.68	0.89	0.95	0.54	0.16	0.70	0.68	0.64	0.62	0.43	0.49
Canara Bank	1.03	1.24	1.34	1.01	1.01	0.86	0.87	0.94	1.14	1.20	0.88
Central Bank of India	0.31	0.54	0.98	0.52	0.34	0.54	0.44	0.39	0.58	0.60	0.23
Corporation Bank	1.31	1.58	1.73	1.19	1.10	1.02	1.1	1.03	1.05	0.98	0.92
Dena Bank	0.06	0.57	1.04	0.25	0.27	0.64	0.93	0.87	0.89	0.86	0.92
Indian Bank	0.11	0.53	1.04	0.93	1.06	1.35	1.43	1.48	1.53	1.41	1.24
Indian Overseas Bank	0.65	1.01	1.08	1.28	1.32	1.23	1.18	1.10	0.54	0.60	0.48
Oriental Bank	0.99	1.34	1.67	1.34	0.95	0.79	0.93	0.79	0.83	0.93	0.64
Punjab & Sind Bank	0.17	0.03	0.06	-0.45	0.57	0.99	1.24	1.04	0.90	0.77	0.62
Punjab National Bank	0.77	0.98	1.08	1.12	0.99	0.95	1.03	1.25	1.32	1.17	1.07
Syndicate Bank	0.79	1.00	0.92	0.77	0.88	0.80	0.79	0.70	0.58	0.67	0.72
UCO Bank	0.52	0.59	0.99	0.63	0.32	0.42	0.46	0.50	0.74	0.55	0.61
Union Bank of India	0.71	1.08	1.22	0.99	0.76	0.82	1.12	1.07	1.06	0.88	0.68
United Bank of India	0.52	1.26	1.22	1.03	0.62	0.63	0.59	0.30	0.42	0.58	0.62
Vijaya Bank	0.81	1.03	1.71	1.30	0.40	0.78	0.64	0.42	0.72	0.64	0.61
SBI & its associates	0.77	0.91	1.02	0.91	0.86	0.82	0.89	0.93	0.88	0.74	0.87
IDBI Bank	...	...	...	0.38	0.63	0.61	0.56	0.50	0.44	0.65	0.70
Average	**0.65**	**0.94**	**1.17**	**0.84**	**0.76**	**0.84**	**0.90**	**0.86**	**0.86**	**0.84**	**0.82**

Note: IDBI Bank was established in the year 2004

Improving Profits:

Between July and September of last year, public sector banks reported a total net profit of Rs 25,685 crore, up over 50% from the same period the previous year. In the three months leading up to September, State Bank of India (SBI), the biggest lender in the nation, had its highest-ever quarterly net profit, up 74% from the same period the year before.

Table 3: Similarly, Canara Bank reported a net profit of 89.4 per cent.

NET PROFIT (Y-O-Y %)

PSU BANKS	Dec 2021	Mar 2022	Jun 2022	Sep 2022
Bank of Baroda	107.05		79.39	58.70
Bank of India	90.02	142.32	-22.02	-8.66
Bank of Maharashtra	110.70	115.19	117.25	102.93
Canara Bank	115.80	64.83	71.73	89.51
Central Bank of India Ltd	68.62		14.20	27.26
Indian Bank	34.11	-42.40	2.69	12.49
Indian Overseas Bank	113.33	57.93	20.06	33.19
Punjab & Sind Bank		115.24	17.75	27.41
Punjab National Bank	122.67	-65.62	-69.86	-62.79
State Bank of India	62.27	41.28	-6.70	73.93
UCO Bank	775.82	290.08	21.41	145.64
Union Bank of India	49.33	8.26	31.96	21.07

Leading public sector banks in India as of December 2023, based on market capitalization (in billion Indian rupees):

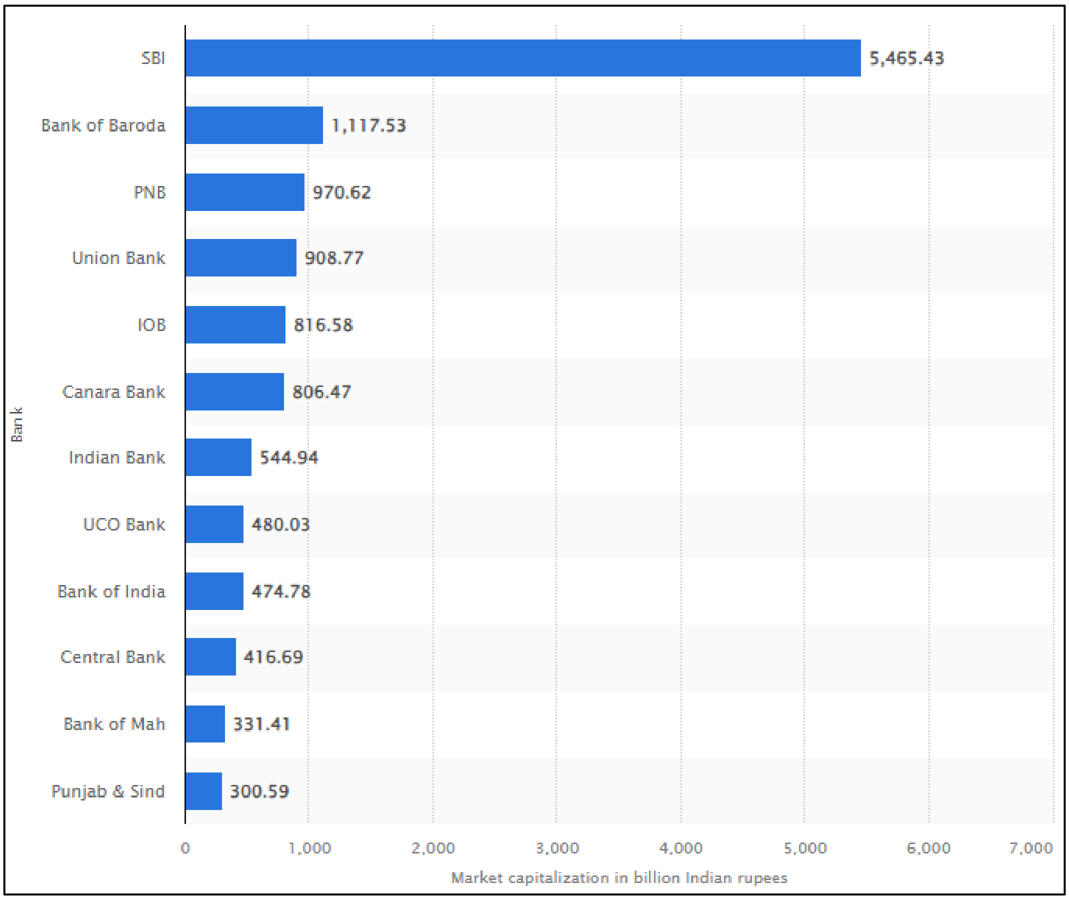

Figure 1: Leading public sector banks in India as of December 2023, based on market capitalization (in billion Indian rupees) [10]

Conclusion:

India's economic reforms began in the early 1990s, but the results are already apparent. Only after liberalization, globalization, and privatization did banks in India undergo significant operational changes. It is now absolutely necessary to research and compare the offerings of public sector banks. In summary, banking is critical to the expansion and development of the economy. In India, PSBs have taken the lead in providing banking services in the most remote regions of the nation and in coordinating resources from far rural areas. PSBs have borne the brunt of the social agenda's burdens without receiving any funding.

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