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Indian Banking Scenario: Need for a revolutionary approach towards privatization

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Nationalized banks such as State Bank Of India (SBI), though pygmies in the international banking market, are banking behemoths of India. They have branches spread over the entire length and breadth of the country. SBI in particular is all-pervasive enjoying a sprawling network of 9000 branches. Its blue and white shingle is visible to the smallest hamlet. It has assets understood to be worth about Rs2,22,500 crore ($52 billion). SBI has a very conservative approach to accounting particularly when it comes to declaration of its assets. Probably modesty does not permit the bank to exhibit its strengths. In particular, it has real estate properties some of which are heritage sites all over the country. These are estimated to collectively command a value of Rs.30,000 crores. This, it is believed, does not get reflected in its book of accounts.

SBI enjoys a monopoly of the government business. The Reserve Bank of India owns about 60% of the bank's equity. To its credit, SBI mobilized $4.2 billion through the Resurgent India Bonds (RIB) issue in just 3 months down the post-Pokhran sanction period. This was the difficult time when the international credit rating agencies had downgraded the country. SBI, time and again, does a rescue act in the forex market to contain any volatility of the rupee.

SBI was formed under the SBI Act in 1955 with the takeover of Imperial Bank and amalgamation of Bank of Bengal, Bank of Bombay, and Bank of Madras. The government mopped up around 93% of the equity, leaving 7% to private ownership. By this act the equity of RBI cannot be diluted below 55%.

SBI enjoys a pool of best managerial talent, assured government business, a countrywide network of branches and a strong brand credibility in the Indian market.

But, that *numero uno* position is sliding with the entry of sleeker private and foreign banks into the Indian Banking scene. The bank is continuously restructuring itself and for this, they even hire the services of foreign consultants but the pace has to be hastened.

With the government offering an assured business, nationalized banks and State Bank of India in particular should not take a complacent view. They should evolve service-intensive products and make their employees customer-friendly. With competition from private and foreign banks knocking at the door, the banks should realize, size is no more an insurance against the onslaught of competition from sleek private and foreign banks. A revolutionary approach to privatize ownership is the need of the hour.

Virtual Banking:

SBI has yet to computerize its operations and network all its branches. The computers currently available serve only to relieve the burden of the clerical staff of maintaining manual ledgers and not to penetrate into areas of customer service. ATMs, Anytime-Anywhere, round the clock and telephone banking is still a far cry. These computers at the best remain only as desk ornaments. With the New Telecom Policy (NTP) almost in place, telecom sector will soon be revolutionized. E-commerce, telephone banking, consumer banking, Internet banking, insurance et al are waiting just around the corner. At least in major metros, virtual banking will soon take-over from the brick-mortar banks.

Privatization and Credit disbursement:

Talks about privatization of the bank's ownership have been initiated but the SBI act of 1955 does not permit RBI's ownership to be diluted to below 55%. This act is outdated and needs to be re-addressed. However, efforts have been initiated by SBI to privatize its non – banking subsidiaries like SBI Caps, SBI Gilts, SBI Funds Management, where SBI's holding is about 85% of the equity. But the pace has to be hastened so that investments thus released can migrate to more important areas like development of new technologies and products in customer service and service intensive areas. Privatization also helps to professionalize the banks' day-to-day operation, which will allow the management more freedom in decision making during credit disbursement.

To aid privatization and effect a better price realization, the bank is attempting to change – over its accounting and reporting procedures to comply with US – GAAP norms. This is a prerequisite for trying out the ADR route, as it is known that US market is by far the undisputed biggest market and can offer the best price**.** At the moment, the SBI stock is undervalued at Rs.240 whereas experts expect Rs.300 would be a more realistic value. Action on this front at blitzkrieg pace is the need of the hour.

Manpower Retraining and not Retrenchment:

As a hangover of the past socialistic mindset, all the nationalized banks have excess workforce. This is indeed a hot potato for the management of many enterprises and is therefore being handled with kid gloves. In India, it is everyone's worry to look at business as a source of employment, while making money is secondary. In this ocean of manpower, every institution does have its share of highly skilled and talented manpower, which contribute to asset building. It is the semi skilled manpower having outdated skills, which form the excess baggage. All banks must invest in re-training the manpower so that they can migrate from the areas that will be vacated by computerization. The level of Non-Performing-Assets (NPAs) is still at very high levels and to start with, some of this excess manpower can cover areas of debt recovery.

At the same time, one should also take note of the flight of talent from these nationalized banks to newly set-up private and foreign banks. And, it is these new banks' top officials after migrating from the government banks are targeting at the top corporate clients and thus poaching into the corporate business, which has been the mainstay of the nationalized banks. This will soon become a problem of serious proportion unless the banks initiate steps to stem the flow. It is difficult, to exclusively address the problem of excess manpower by schemes such as voluntary retrenchment scheme (VRS) because while attempting to remove dead wood, talent also takes an exit. Many industries have faced this problem. Also it will be oversimplicity to state that the salaries should be raised because that will only start a wage war. Instead, the banks should involve the services of international consultants specialized in this field and take a holistic view of the problem. Retraining and Rationalization of manpower commands higher priority over Retrenchment of manpower.

New Products and New technologies:

Nationalized banks have generally been preoccupied with treasury business. The new product areas that require greater penetration are personal banking, housing finance, consumer durable finance, auto-finance, internet banking, insurance, telephone banking et al. Development of these new areas call for heavy investments and this cash - flow can only generated by privatization. In addition, surplus manpower once retrained can be absorbed in the new ventures.

All nationalized banks and SBI in particular has the advantage of vast network of branches and can therefore carry the new business to the remotest corner, but to make this presence felt the banks have to move at blitzkrieg pace.

The bottom line is that, even when all political parties are committed to privatization, somehow there is no exhibition of pace. It is time to be taken in by a revolution called "Privatization of Ownership".

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