KOLKATA: Reserve Bank of India suggested that working of public sector banks should be delinked from social banking to make them efficient and allow them to work on commercial principles.

"The frictions that hinder the performance PSBs need to be completely eliminated and they should be allowed to work on commercial principles even as the costs of social banking have to be provided for separately," deputy governor R Gandhi said Friday.

"If that is through budgetary support, the government may be more than compensated through increased revenues from and valuations of PSBs," he said.
Captains at PSBs often lament about the burden they need to carry in doing social banking... from disbursing pensions to lending to the weaker sections. They need to do these as a rule, not by choice.

"We need also to look at issues other than the quality of assets in banks, that include autonomy to take commercial decisions to governance structures, especially where the board level responsibilities should go beyond 'box-ticking' and that the so called 'grey' or 'independent' directors are truly 'independent'," he said.

The government has announced to infuse Rs 70,000 crore more capital to banks over four years under its Indradhanush programme, depending on performance of individual banks.

"The move to link budgetary capital allocation with performance needs to be seen as a serious attempt to convey the right signals to all banks to introspect and, if necessary, redefine their business strategies. In other words, in the long run, the new norms will be value enhancing for the public sector banks," he said at the 6th annual Great Lakes - Union Bank Financial Conference on Feb 5, 2016 at in Chennai.

In terms of public perception, the public sector banks with the implicit government support, are considered to be relatively immune to destabilising impacts. However, Gandhi said the same sense of safety evades PSBs when it comes to their valuations. "This has an efficiency imperative - when judged by their returns on asset or capital employed."