

Impact of Privatization of Public Sector Banks in India



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1. Introduction

While presenting Budget, 2021-22 Finance Minister Ms. Nirmala Sitharaman had announced the privatization of Public Sector Banks (PSBs) and approval of policy as part of its strategic disinvestment drive. The proposed Banking law Amendment Bill 2021 to bring down the minimum Government holding in the PSBs to 26% from 51% which was to be introduced in the last winter session 2021 of parliament was delayed. While responding to a question on privatization of two PSBs, Finance Minister responded in written reply in Rajya Sabha that the objective of the policy includes enablement of growth of public sector banks through advance technology, infusion of capital and best practices. The Union Budget has announced the privatization of one general insurance company and two public sector banks (in addition to IDBI). Bare minimum presence of Government in strategic sale / disinvestment policy for four strategic sectors – including insurance, banking and financial services was the main objective of this announcement. With Effect from 1st April 2020 after the merger only 12 PSU`s Bank exist and out of these – 6 PSU`s Bank – Indian Overseas Bank, Punjab and Sindh Bank, UCO Bank, Bank of India, Central Bank of India and Bank of Maharashtra are independent. However, the final decision on the banks to be privatized is yet to be taken. Many banks were under private ownership until their nationalization in 1969 and their privatization proposal to privatise these banks marks a strategic shift back from where it started. State owned banks continues to be relevant for the last mile connectivity and have the public confidence and trust on them.

The names of the PSB`s for privatization have not final yet as the cabinet has not given the final nod. As per the CNBC TV 18`s report news dated 30th June 2021, Ms Ritz Singh & Ms latha Venketesh said “It has been given to understand that the Niti Aayog has made a recommendation that the Indian Overseas Bank (IOB) and Central Bank of India are the two candidates that are considered for privatisation exercise.” Both these two PSBs (CBI and IOB) identified for privatization continue to be recouping from weaknesses that prompted RBI to put them on prompt corrective action (PCA). IOB was placed under PCA way back in 2015 and only on September 29, 2021, RBI had lifted the PCA. CBI was brought under PCA in June 2017 due to high ratio of non-performing assets (NPAs) and negative return on assets and it continues to be under PCA. Government had to infuse capital of Rs. 4800 crores in CBI and Rs.4100 crores in IOB during 2020-21 to shore up their capital adequacy ratio (CAR). As a result, government stake reached 89.78 percent in CBI and 95.84 percent in IOB. The improved CAR may help them eventually to exit from the PCA restrictions. Despite the PCA restrictions, both the banks have shown growth prospects, but asset quality is big challenge for these banks. This article studies the impact and explain the background, various committees` recommendations, global experience, arguments for privatization, challenges and opportunities for privatization of Public Sector Banks in India.

2. Background

There is a long history of failures of private bank in India and more than 900 banks failed even after the formation of Reserve Bank of India in 1935 till Independence in 1947. More than 665 private banks failed from the period 1947 to 1969. The number of commercial banks were brought down sharply from to 91 in 1967 from 566 in 1951 (As per RBI`s history series volume 3 notes). The main idea of the Government behind nationalisation of the 14 major private banks in 1969 and 6 banks in 1980 was to align the banking sector with the socialistic approach of the then government. Nationalization is the process of taking privately controlled companies, industries, banks or assets and putting them under the control of Government. it often happens in developing countries and can reflects a nation`s desire to control assets or to assess its dominance over foreign-owned industries. Even after nationalization of banks in 1969, 36 more banks failed but these were merged with PSBs for example the Global Trust Bank was merged with Oriental Bank of Commerce in 2004. In 1955, State Bank of India in 1956 the insurance sector was nationalised. There has been many cases of Co-operative banks failure and the number of Co-operative banks merged or shut down from to 1551 in the year 2018 from 9126 in the year 20024.

The concept of Privatization emerged in the historic economic reforms of the Budget of 1991, known as New Economic Policy or LPG (liberalization, Privatization and Globalization) which changed the path of the economy to restore the balance of payment, restructure, reform and modernise to convert the crisis into opportunity. The various factors which lead to economic crisis in 1991 were Rise in prices, increase in inflation rate from 6.7% to 16.7%, rise in fiscal deficit, increase in adverse balance of payments, Iraq War, dismissal performance of PSUs and fall in foreign exchange reserves. The main features of LPG policy were abolition of industrial licensing, dilution of public sector role, beginning of privatization, free entry to foreign investment and technology, industrial location policy liberalized, deregulation of markets, reduction of taxes and abolition of phased manufacturing programems for new projects. Positive outcomes of the LPG reforms were increase in GDP growth rate, increase

in FDI equity inflows stood at US\$ 19.33 billion, increase employment opportunities, per capita income and exports stood at US\$ 26.38 billion in October 2019.

The series of banking reforms starting with Nationalization of banks in 1969 and 1980, License to new generation private sector banks in 1994 like ICICI Bank, HDFC Bank and UTI Banks, Introduction of Small Finance and Payment banks in 2016, merger of SBI and its associate banks in 2017 and Public Sector Banks merger in 2020 and now proposed privatization of banks will lead to the change in the banking landscape in India and underline an approach of finding market led solutions to challenge the financial sector. The big question is Why was the need felt after 52 years of nationalization of Government owned banks to privatise.

3. Committees on Privatization of Public Sector Banks (PSBs)

Various committees had proposed bringing down the government stake in public banks below 51% as per details below

The Narasimham Committee 1991 to promote the healthy development of financial sector proposed 33% government sector stake and establishment of 4 tier hierarchy for banking structure with 3 to 4 large banks (including SBI) at the top and at bottom rural banks engaged in agricultural activities.

The P J Nayak Committee in 2014 was set up by Reserve Bank of India as the committee to review governance of boards of banks in India. PJ Nayak Committee recommended to repeal the bank nationalization act (1970, 1980), the SBI and SBI Subsidiaries Act as these acts require the government to have above 50% share in the banks. Committee suggested the government to reduce the stake below 50%.

On 20TH Nov 2020- RBI released the report of the Internal Working Group to review extant ownership guidelines and corporate structure for Indian Private Sector Banks. One of the recommendations of the report was to allow the entry of large corporate//business/industrial houses into the banking sector as promoters of the bank after necessary amendments to the Banking Regulation Act, 1949.

In the second term, the NDA government has been pushing and taken initiatives for reducing number of PSU Banks through privatization

Recently, the government has decided to have a relook at some key aspects of Banking Laws (Amendment) Bill 2021 - which aims to Privatise two Public Sector Banks (PSBs) - during the Winter session of Parliament. In the last session, the government passed a bill that will allow the privatisation of state-owned general insurance companies, through the General Insurance Business (Nationalisation) Amendment Bill, 2021. The Bill aims to amend banking companies acquisition and transfer laws of 1970 and 1980 and the Banking Regulation Act, 1949 to achieve privatisation of two PSBs to meet disinvestment targets as stated by the finance minister in the Union Budget 2021-22. These laws had led to the nationalisation of banks, so relevant provisions of these laws have to be changed to pave the way for the privatisation. This move will bring down the minimum government holding in the PSBs from 51% to 26%

4. Global Experience of Privatization of Banks

Asian Development Bank's Special Evaluation Study on the privatization of public sector banks: Lessons for developing member countries released in 2001 under Emerging institutional and Sector Developments-Banking segment states that:

- Governments have adopted different approaches to retaining banks as a policy instrument. Some countries treat their banking sector as infant industries by encouraging local ownership and by limiting foreign competition. However, market diseconomies, the advent of technological advances in communications, and the lack of world linkages reduce the competitiveness of local ownership. Crucial, overall, for the efficacy of banking is the capacity of the regulatory and supervisory institutions and the general need for consolidation.
- The consequences of bank failure are recognized. Except in countries undergoing a rapid transition to privatization, the preferred approach is to proceed with bank privatization immediately after the institutional and regulatory framework is established, and before privatization of nonbanking enterprises. If the banking sector is not privatized, then the empirical evidence points to the need to deregulate the banking sector and infuse competition.
- The privatization of Creditanstalt in Austria shows how a local bank can join the 100 biggest banks in the world. A similar pattern was followed in Italy, but bank ownership was transferred ultimately to foreign investors. The Czech Republic, Hungary, and Poland are other examples where privatization was pursued with the intention that the banks would remain local entities. However, a surge in the volume of bad debt portfolios resulted in the lifting of restrictions on foreign investment. Consequently, privatization deals were concluded with foreign participants in all three countries.

Research paper "Impact of Privatization in Banking Sector: A Case Study of Muslim Co-operative Bank (MCB) and Allied Bank of Pakistan (ALB) published in IOSR journal of Business and Management by author M. Rizwan et al. explores the effectiveness of privatization in getting productivity by the banking industry in pre and post privatization phases and positive relationships between privatization and financial growth of banks in Pakistan. The examples of banks privatized in Pakistan since 1991 are MCB Bank, ALB Bank, Banker's Equity Limited, Bank Alfalah limited, United Bank Limited, Habib Bank Limited and National Bank of Pakistan.

5. Reasons for Privatization

Privatization is defined as the transfer of ownership, business, or property from the government to the private sector and the government ceases to be the owner of the entity or business.

5.1 Degrading Financial Position of Public Sector Banks

Various governance reforms and injection of capital for many years have not been able to perform the financial position of public sector bank significantly. many of the public sector banks have higher level of stressed and non-performing assets and also lag on the market capitalization, profitability and dividend payment record. In the year 2019, Government front loaded Rs. 70000 crore capital in September 2019, Rs. 1.06 lakhs crore in the FY 2019 through recapitalization bonds and Rs. 80000 crores in FY 2018. The share of PSBs in total advances as well as in deposits has been declining since 2010-11, while private sector banks (PVBs) have been improving their share. The consolidated balance sheet of scheduled commercial banks (SCBs) accelerated during 2020-21, notwithstanding the pandemic and the contraction in economic activity in the first half of the year. Deposit growth on the liabilities side was matched by investments on the assets side; however, credit offtake remained subdued. Supervisory data suggest that while nascent signs of recovery are visible in credit growth, deposit growth has slowed down in 2021-22 so far. Figure.1 Reflects the deposit and credit growth of Public Sector Banks, Private Sector and Foreign Banks.

	Public Sector Banks		Private Sector Banks		Foreign Banks	Amount in Crores
	2020	2021	2020	2021	2020	2021
Deposits	9048420	9900766	4159044	4800646	684239	777173
Loan and Advances	6158112	6348758	3625154	3939292	428076	423546

Figure 1 Deposit & Credit Growth of PSB`s, Private Sector Banks & Foreign Banks
 Source: RBI Trends and Progress Report 2020-21 – Annual accounts of Respective Banks

5.2 Privatization: Part of a Long-Term Project

In the year 2017, there were 27 PSBs and following the consolidation of PSB`s, there are now seven large public sector banks (PSBs), and five smaller ones. The total number of public sector banks in the country have come down from 18 to 12 from April 1, 2020. The Banks` merger dated April 1, 2020, has resulted in the creation of seven large PSBs with scale and national reach, with each amalgamated entity having business of over Rs 8 lakh crore and it has helped to create banks with scale comparable to global banks and capable of competing effectively in India and globally. Dena Bank and Vijaya Bank were merged with Bank of Baroda. Prior to this, the government had merged five associate banks of SBI and Bhartiya Mahila Bank with SBI. These were State Bank of Patiala, State Bank of Bikaner and Jaipur, State Bank of Mysore, State Bank of Travancore and State Bank of Hyderabad effective April 2017. The market cap of State Bank of India is \$54.78 billion as of March 2022., and Bank of Baroda`s \$7.04 billion. Privatisation of two public sector banks will set the ball rolling for a long-term project that envisages only a handful of state-owned banks, with the rest either consolidated with strong banks or privatised. The initial plan of the government was to privatise four. Depending on the success with the first two, the government is likely to go for divestment in another two or three banks in the next financial year. This will free up the government, the majority owner, from continuing to provide equity support to the banks year after year. RBI Governor, Mr. Shaktikanta Dass, while delivering the inaugural address at the India Economic Conclave (IEC) 2021 said that the Centre`s plan to privatise public sector banks is as a part of the efforts to revive the economy which is reeling under the impact of Covid-19 pandemic and the government is aiming to generate the Rs. 1.75 lakh crore through the disinvestment drive.

5.3 Strengthening of Banks

Strategy behind the privatization is to strengthen the balance sheet of these two public sector banks in order to generate potential investor interest and the government has slashed the allocation for bank capitalisation for the current fiscal by Rs. 5000 crores to 15000 crores for the FY 2021-22 and no provision for bank capitalisation were announced in the budget for 2022.23. The reason for no capital allocations is, as most of the state-run lenders are in profits and have plans to resolve the capital from the markets on their own strength. On 23rd April, 2022, Mr. Sanjay Malhotra, secretary financial services said at the meeting which was a part of Manthan 2022 with top executive of public sector banks (PSBs) “Lenders have registered good profitability in the first three quarters of FY 22 and improved financials has enabled PSBs to raise Rs. 58697 crores from the market, inclusive of 10543 crores in FY 21 whereas it was just Rs. 29573 Crore. (Figure 2)



Figure 2 Gearing Up with Privatization

Source: The Economics Times dated 8th Feb 2022: Banks headed for Privatization my get most of allocated funds

5.4 Reduction in Bad Loans

According to the Reserve Bank of India data on domestic operations, state run bank`s gross bad loans dropped to 8.18% of gross bad loans dropped to 8.18% of gross advances by December 2021 from 9.36% as of March 2021. Their capital adequacy was about 14.3% as of June 2021, above the requirement of 10.875% Strategies for long term profitability and customer centric by public sector banks are the two main agenda of Manthan 2022 which was held to brainstorm the top leadership of PSBs to

unlock next generation reforms along with enhanced access and service excellence initiative (EASE). With the introduction of Bad Bank to clear the NPA from the PSB's balance sheet, the Government does not expect further spike in bad loans as economy set to recover faster.

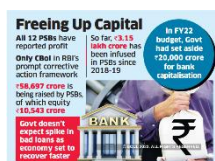


Figure 3 Freeing Up Capital
Source: The Economics Times

5.5 Creation of Big Banks One of the objectives of privatisation is also to create big banks. Unless privatised PSBs are merged with existing large private banks, they cannot ultimately attain the kind of scale and size to develop higher risk appetite and lending capacity. Hence, privatisation is a multifaceted task considering all angles to tackle multiple challenges and exploring new ideas, but it can pave the way for developing a more sustainable and strong banking system benefitting all stakeholders.

5.6 Issue of Dual Control of PSBs by the Ministry of Finance through the Banking Regulation Act, 1949 and the RBI Act, 1934. The RBI, unlike private banks, does not have autonomy in the governance of PSBs as there is a constant intervention of the government that tends to politicise the normal functioning of the PSBs. The privatisation of PSBs has stirred a huge debate across the nation with an economic and political analysis of the decision

Arguments for Privatization of PSBs

1. Poor Governance in Public Sector Banks is to Blame for the Bad Loan Problem

Supporters often cite the larger non-performing assets (NPAs) of the public sector banks to justify privatization. They, however, choose to ignore the fact that a major reason for this is the social obligation objectives consistently pursued by public sector banks. Bank unions say that the losses were largely caused by wilful defaulters — that is, those who had the capacity to repay but chose to evade. And they argue that most of these bad loans belong to private corporates. The quantum of bad loans written off from 2001 to 2019 amounted to a whopping ₹6,94,037 crore. Non-performing assets (NPAs), as can be seen from the Economic Survey 2020-21, are not exclusively generated in PSBs. The NPAs of private banks up to March 2020 amounted to ₹2,05,848 crore against ₹6,87,317 crore in PSBs. The loans have become bad due to corporate customers' default; the written-off sum of 50 corporate customers aggregates to ₹68,607 crore.

2. Private Banks Invariably Perform Better than Public Sector Banks

Another argument made in favour of privatization is that PSBs have underperformed private banks by a wide margin over the years. So, privatizing PSBs would mean a more efficient banking sector. The government willfully continues to obfuscate the fact that inefficient management and corrupt practices by the private sector banks had forced the Reserve Bank of India (RBI) to step in and rescue many private sector banks from collapse by merging them with other healthier banks in the last two decades. In fact, the near collapse of Yes Bank, the fourth largest private bank, last year, had badly shaken even the public confidence in the banking sector. The experience of some of the oldest surviving private banks like South Indian Bank, Tamilnad Mercantile Bank Limited, Karur Vysya Bank, Karnataka Bank, and many others founded in the first half of the last century, hardly inspires any confidence in the ability of the private sector to build large banks. In case of Yes Bank, Lakshmi Vilas Bank, DHFL, PMC, Reliance Capital, etc. over the last few years RBI felt need to crack the whip keeping in view panic among depositors. Proponents of privatization also choose to ignore the lessons from the regular collapse of private banks in both the pre- and post-nationalization phases, including those in the recent decades. The nationalized banks have bailed out the failing private banks. Twenty-five private banks were merged with PSBs from 1969 to 2020. Some examples are as below: -

Private Sector Bank Merged	Nationalized Bank in which Merged	Year
Lakshmi Commercial Bank	Canara Bank	1985
Bank of Cochin	State Bank of India	1985
The Miraj State Bank	Union Bank of India	1985
Hindustan Commercial Bank	Punjab National Bank	1986
Traders Bank	Bank of Baroda	1988
United Industrial Bank	Allahabad Bank	1989-90
Bank of Tamilnadu	Indian Overseas Bank	1989-90
The Bank of Tanjavur	Indian Bank	1989-90
Parur Central Bank	Bank of India	1989-90
Poorwanchal Bank	Central Bank of India	1989-90
Bank of Karad	Bank of India	1993-94

Kashinath Seth Bank	State Bank of India	1995-96
Punjab Co-operative Bank	Oriental Bank of Commerce	1996
Bareilly Corporation Bank	Bank of Baroda	1999
Sikkim Bank Ltd	Union Bank of India	1999
Banaras State Bank	Bank of Baroda	2002
Nedungadi Bank	Punjab National Bank	2003
Global Trust Bank	Oriental Bank of Commerce	2004
Bharat Overseas Bank	Indian Overseas Bank	2007

3. Bailing Out Public Sector Banks Is a Drain on the Government's Capital

It is argued that PSBs impose prohibitive fiscal costs on the government. Scarce government resources that could be used elsewhere are spent on keeping non-performing PSBs afloat.

The very need for Nationalization arose due to the failure of the private sector in the area of commercial viability and the protection of depositors' money, let alone social profit. Social profit comprises improving banking services accessibility in the unbanked areas and to the weaker sections of society; this type of profit is intangible and measured in terms of the increase in incomes, output and employment in the country. PSBs have acted as catalysts in economic development and have played a key role in the development of agriculture, small trade, small business, SSI, transport, and in the upliftment of weaker sections of the society. PSBs mobilize savings that spur investment and thereby growth.

4. It is argued that Public Sector Banks are Inefficient and Incur Losses.

Despite the onslaught of privatization, ideological attacks, public sector banks are making a profit. In the last 12 years, public sector banks have earned operating profits of Rs 14, 55,218 crores. At times, banks are found incurring losses or net profit becoming negative due to higher provisioning for NPAs in some years. The rapid expansion in branch network has been the foremost of achievements of bank nationalization. By September 2020, the number of bank branches reached 1,60,827 from a mere 8,187 before the bank nationalization in 1969. In rural areas, the bank branches increased from 1,443 in 1969 to 52,632 by September 2020, raising the share of rural branches from 17.6 per cent to 32.72 per cent. They operate 97.2 per cent of 41.98 crore Jan-Dhan accounts in the country. Their share of these accounts in rural areas is still higher, at 97.50 per cent against private banks' 2.5 per cent. Despite wielding higher social responsibility, PSBs' operating profits during the five years 2015-16 to 2019-20 aggregated to ₹7,77,043 crore. The huge provisioning, ₹9,84,415 crore towards bad loans, pushed them into the red — net loss of ₹2,07,372 crore.

5. Privatization Is the Only Solution to the Banking Crisis

The Government appears to have decided to privatize PSBs. Preparations are underway with arguments being marshalled that "there is no alternative" to privatization. While there is no denying that there is scope for improving the performance of PSBs, it cannot be said that PSBs cannot be reformed without changing the nature of their ownership. The government, as the majority owner, may continue to exercise control, but it must do so through its nominees on the Board, so that decision-making is transparent, and decisions are properly debated. The governance problem at PSBs is not that of the government exercising control per se. It is that the government exercises control by circumventing the board and through direct contacts between the Ministry of Finance and the top management of banks. This must end. The government can empower boards by expressing its views through its representatives on the board.

6. PSBs in general have legacy problems of human resources like age profile, skill sets and digital capabilities, more so when quality of manpower is emerging as a competitive differentiator.

Now PSBs are making efforts to overcome these weaknesses and mend their operational efficiency akin to its private peers. The PSBs will continue to progress toward its objective of creating India's leading digitally enabled Banking franchise. In the last couple of years, some questions have arisen over the performance of private banks, especially on governance issues. ICICI Bank MD and CEO Chanda Kochhar was sacked for allegedly extending dubious loans. Yes, Bank CEO Rana Kapoor 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. Moreover, when the RBI ordered an asset quality review of banks in 2015, many private sector banks, including Yes Bank, were found under-reporting NPAs. Former Axis Bank MD Shikha Sharma too was denied an extension.

7. The interests of employees will be protected by Private Sector Banks

The government having already assured in various forums that the interest of employees will be taken care, these banks may logically offer a voluntary retirement scheme (VRS) to its employees to balance the age profile and to make space for the new owner to induct fresh lateral talent. But VRS many times may become counterproductive with flight of talent. Reports indicate that enterprising employees of these banks are already on prowl for new jobs. But the privatization will also result in job losses, branch closures, and financial exclusion. The privatization will shrink employment opportunities, will result in financial exclusion and promote capitalism

8. Government itself should run the enterprise and remain its owner, in today's era it is neither necessary nor is it possible.

By handing over financial savings to private companies, it will help private companies to gain control over our savings-oriented economy, thereby destroying growth and development.

9. The overall Customer Service is better in a Private Bank.

Privatization of PSBs will bring about an enhanced customer service experience. The increase in tech-driven products and ease of banking services will also help in improving the overall administrative efficiency and customer service. The government refuses to acknowledge the huge contributions of public sector banks and also ignores the lackadaisical performance of the private sector banks, which, except in the case of a few outliers, continue to largely focus operations in urban areas and on high-end users who can afford to pay their exorbitant charges. In fact, even today the complaints against overcharging without prior notice by private sector banks far outnumber those against public sector banks. So, privatization and a larger market share of private sector banks would only end up in increasing the costs of banking services without any other significant commensurate benefits.

Arguments in favour of PSB`s

However, article "Privatization of Public Sector Bank: An alternative perspective" published in RBI, Bulletin on 18th August, 2022 studies that the Public Sector Banks` have played a key role in the economic development and improvement in general economic welfare. Article also explained the following initiatives by PSB`s:

Role of PSB`s in Financial Inclusion: PSB`s have the highest number of bank branches in the rural areas and the number of ATMs by the PSB`s in rural areas are twice then the PVBs. Business Correspondent (BCs) model and other innovative ways of providing financial services is above 60% of the years. Under Pradhan Mantri Jan Dhan Yojana (PMJDY), PSB`s have 78% of the total accounts opened and 45 crore beneficiaries (As of July ,2022)

Efficiency of PSBs: Under DEA- Linear programming-based method used by the authors to measure the efficiency of PSB`s suggests that efficiency of the PVBs is higher as compared to PSB`s when objective is profit maximization but when objective function is changed to other factors like number of branches, Priority sector loans and agricultural advances, PSB`s proved to be more efficient than PVBs. PSB`s labour cost efficiency is always higher than PVBs in most of the year except 2016.

Countercyclical Role of PSBs: PSB`s have played an important countercyclical role by providing credit to industrial sector in the Indian economy since 2017-10 when the cyclical downturn started. PSBs have been always allocated a larger proportion of their total credit to agriculture and industry.

Market Confidence: Investor`s and depositors have more trust and confidence in PSB`s because of government guarantees and they value the financial health of the banks. This article sites various examples of deposits flowing out of PSBs to PVBs during global financial crisis and the episode of depositor`s concern in the early 2020 of Lakshmi Vilas and Yes Bank.

RBI issued clarification on 19th August 2022 regarding the above article as reports in certain sections of the media stating that the RBI is against privatization of Public Sector Banks (PSBs) that this article is authored by researchers of RBI. In this regard, it was further clarified that:

- As clearly stated in the article itself, the views expressed in the article are those of the authors and do not represent the views of the Reserve Bank of India.
- The Press Release relating to the August 2022 Bulletin highlights that "the gradual approach to privatization adopted by the government can ensure that a void is not created in fulfilling the social objective of financial inclusion".
- The concluding paragraph of the article, inter-alia, mentions that:
 1. "From the conventional perspective that privatization is a panacea for all ills, the economic thinking has come a long way to acknowledge that a more nuanced approach is required while pursuing it";
 2. "Recent mega merger of PSBs has resulted in consolidation of the sector, creating stronger and more robust and competitive banks";
 3. "A big bang approach of privatization of these banks may do more harm than good. The government has already announced its intention to privatize two banks. Such a gradual approach would ensure that large scale privatization does not create a void in fulfilling important social objectives of financial inclusion and monetary transmission." Thus, the researchers are of the view that instead of a big bang approach, a gradual approach as announced by the Government would result in better outcomes.

6. Challenges and Opportunities

The Banking sector is set to witness significant reforms in the year 2022 with privatization of public sector banks and strategic dis investment. The changed regulatory environment (Basel norms) and capital constraints faced by PSB`s due to government ownership is restricting their growth prospects. Bank privatization is expected to provide lot of benefits like increased efficiency, level of innovation strong compliance, reduction in cost of recapitalization and risk mitigation, however the various challenges in its implementation ahead are discussed as below:

Challenges

6.1 Combining of Banking and Commerce

One of the main challenges of privatization of PSB`s is the combining Banking and Commerce as it is associated with many risks as India has experienced with private banks prior to Nationalization in 1969. Operational and information efficiencies can

stem from such relationship. Restrictive guidelines in 1993 (While granting license to new banks) to bar the large corporate house for promoting bank directly with equity maximum of 10% without any higher level of participation and controlling interest without the approval of RBI need to be viewed as historical experience. Various regulatory concerns relating to conflict of interest like diversion of public deposits by private bank promoters to their own companies / subsidiaries need to be taken care when corporate houses are allowed to take over PSBs. India needs to have more bigger and strong banks to match the scale of the country's largest State Bank of India.

6.2 Finding suitors/ buyers for the Banks

One of the biggest challenges is to find a suitable buyer for the PSB's whose loan book is less than optimum and had been backed by the Government for their survival otherwise they would have turned bankrupt. Dysfunctional portfolio with banking license and possession of the government owns priciest real estate assets which Government would not like to sell are the main reason for difficult in finding buyers for sale.

6.3 Convincing the Trade Union

The two-day bank strike by Central Trade Union for protest against the Government's decision to privatize the two public sector banks, reduction in service charges and increase in deposit interest rates. Mr. Sanjay Dass, General Secretary of All India Bank officers Confederation (AIBOC) said that proposal will hurt the credit flow to rural economy, self-help group and priority sectors. Managing the Government employee's huge payroll is one of the biggest challenges for the Government in case of privatization of ailing banks. Convincing the trade union and assurance to fulfill the commitments to protect the rights and perquisites is important. Trade Union have put forth their arguments that willful default by private borrowers is the main reason for PSB's losses and therefore the better control and regulations of private corporates is the right solution instead of privatization.

6.4 Correct valuation of Assets

Another challenge is the correct valuation of PSBs to be sold and the big question arise that whether the bids will be called from large industrial houses or proposals from existing big private sector banks. The current market value of the shares of PSB's with high level of NPA's cannot be an indicator to rates the valuation of such banks as Government want to maximize realization for the assets. If the Bad Bank take over the bad loans of PSBs at the book value to be sold and clean their balance sheets, then whether the transferee will be taking a hit when these assets are sold.

6.5 Rural Banking – Issue of Accessibility

PSBs with large number of branches in the rural and semi-rural and semi urban areas / districts across the country and have large dominance over the accessibility to customers in promoting financial inclusion. Private Sector Banks will face challenge and difficulty in maintenance of the branches, Governance and creating a trust among the rural masses as compared to the PSBs.

Opportunities

6.6 Mitigation of NPA problem

The privatization of Public Sector Banks will reduce the NPA issue and raising fresh equities will empower the banks to improve performance, resume lending and privatize their ownership structure. The debt-ridden Public-Sector Banks will focus recovery and growth with the dilution of the Government's stake and the introduction of Bad Bank will also play an important role in mitigation of NPA. In March 2019, NPAs at PSBs were 12.6% of all advances, and the figure for private banks was 3.7%. Return on assets at PSBs was -0.9%, while that at private banks was 1.2%.

6.7 Macroeconomic Stability Post Covid

The privatization of the few loss-making public-sector banks will have positive impact on the economy and bring the macroeconomic stability and enable the PSBs to rectify their strategy post Covid19. The recapitalization of the banks through systematic disinvestment of the government holdings and raising equity through private players including foreign investments will help the economy in achieving buoyancy post pandemic.

6.8 Administrative Efficiency

The aspect of administrative efficiency plays a key role in the smooth functioning and governance of a bank. The administrative efficiency of a private bank as compared to PSBs is better.

6.9 Improved Quality of Customer Service

The overall customer service is better in a private bank. Therefore, privatization of PSBs will bring about an enhanced customer service experience. The increase in tech-driven products and ease of banking services will also help in improving the overall administrative efficiency and customer service. These tech-driven products will also enable the private banks to increase their reach in the rural banking sector and provide quality services to their customers.

6.10 Competition

The privatization drive will provide the private players a level playing field with increased competition in the market which will eventually drive the private banks to perform better and increase their efficiency. The private banks, due to increase in the competition, will introduce innovative products that focus on specific consumer preferences keeping in view the risk assessment, risk improvement, product pricing, and lower service costs.

6.11 Capital Infusion and Foreign Investment

India has a great potential of an influx of foreign investment wherein infusing more capital into the banking sector will give a fillip to the already suffering economy. The PSBs as compared to the private banks have been less aggressive in lending, attracting deposits, and in setting up branches. The influx of foreign investment will allow the private banks to take more risks to bring in better products, aggressive lending, development in the rural areas, and providing low-cost services and lower interest on loans.

6.12 Job Creation

The privatization of PSBs will enable the private banks to create more job opportunities for individuals with specialized expertise in banking, finance, and technology to meet their target-oriented requirements with improved infrastructure and effective manpower.

7. Conclusion

The banking sector in India is one of the largest contributors to the growth of the economy and is evolving at a steady pace. However, the banking sector, especially the PSBs has had a huge impact on a decline in the economy due to the ongoing pandemic. To amplify the growth of the economy and the sector, the decision of the government to privatise the PSBs will prove to be a structural change in the banking sector by opening it to private players, increasing capital inflow and foreign investment which may become a boon to the emergence of the new age for banking sector eventually resulting in economic resilience of the country. Mr. Tuhin Kanta Pandey, Secretary Department of Investment and Public Asset Management (DIPAM) said in the interview to The Print “The major issues arises if the banks are not privatized, as organizations do not change fast enough or do not have enough capital to sustain the business. Creating awareness of the of privatization (state owned banks) is not intended to take away jobs but to increase the sustainable jobs. “Need for privatization was felt as government reforms are not improving despite of years of capital injection, higher level of stressed assets, free up the government from providing equity support and strengthen the strong banks. Privatizing the PSBs will pump the competition in the market and lead the debt-ridden PSBs towards a steady path of growth

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