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India struggles to discipline its state-owned banks

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Indian bank governance is in the spotlight amid the ballooning \$2.1 billion fraudulent-loan scandal at Punjab National Bank. © Reuters

NEW DELHI -- The crisis in India's state-owned banking sector is deepening, but the government may be preparing to give a key oversight body, set up two years ago to improve governance at bank boards, a quiet burial.



The term of the Banks Board Bureau ends on March 31. "We have no clue if the BBB's term will be extended or it will be wound up," one member of the BBB told the Nikkei Asian Review. On March 19, the BBB issued a "Compendium of Recommendations" and requested a meeting with Finance Minister Arun Jaitley to discuss its future.

The document notes that it had sent suggestions on a Governance, Reward and Accountability Framework for state-owned banks to the government, adding: "The Bureau is not aware of the progress made in this regard and there has been no further engagement with Government."

The BBB was one of the steps on improving governance at banks listed by a blue-ribbon commission. Set up by former Reserve Bank of India Gov. Raghuram Rajan, the committee headed by senior banker P.J. Nayak submitted a detailed road map on May 12, 2014 -- two weeks before Prime Minister Narendra Modi took office.

The Modi government did not immediately act on Nayak's recommendations. It was only in August 2015, with bad loans rising dramatically at state-owned banks after an Asset Quality Review ordered by Rajan, that Jaitley unveiled a plan to recapitalize state-owned banks. He also announced the BBB would begin operating from April 1, 2016.