

PNB scam fallout: Govt is revisiting plans of a bank-holding company

Such a company will hold the Centre's entire stake in PSBs and raise capital for them

In the backdrop of the Rs 114-billion fraud at Punjab National Bank (PNB), the government is revisiting plans of a bank-holding company. Such a company will hold all of the Centre's shares in state-owned banks and raise capital for them. The holding company was first proposed by Finance Minister Arun Jaitley in his 2015-16 Budget. The Vinod Rai-led Banks Board Bureau (BBB) was set up in February 2016 as a precursor to a bank-holding company.

Business Standard has learnt that with the ruling Bharatiya Janata Party and its allies (including Nitish Kumar's Janata Dal-United) expected to be close to 100 seats in the Rajya Sabha in April — though still short of the halfway mark of 123 — policymakers in the government say there will be greater room for passing relevant amendments to the Bank Nationalisation Act (BNA), which will be required to set up a bank-holding company.

“The intention in the past few years has been to work on setting up a holding company. However, due to lack of a majority in the Rajya Sabha, there were other important Bills and amendments that had to be pushed through first, including the Insolvency and Bankruptcy Code, constitutional amendments to the goods and services tax (GST), and the GST Bill itself,” said a government official.

“After April, there could be a better chance to push the relevant amendments to the BNA, which will enable setting up a holding company,” the official said. Though the person did not provide details on a timeline or the structure of a holding company, the sense in the government is of the need for a professionally-run, quasi-independent holding company in which the Centre will have a majority stake but which will operate at arm's length. It will hold the Centre's entire stake in listed public sector banks (PSBs), from 87 per cent in United Bank of India to 55.5 per cent in Union Bank.

Among the big state-owned lenders, the Centre owns 57 per cent in State Bank of India and PNB, and 59 per cent in Bank of Baroda.

Such a company will divest stakes in PSBs as and when required, and will also recapitalise them, based on their provisioning and growth needs. Had such a holding company been in existence now, it would be issuing Rs 1.35 billion worth of recapitalisation bonds instead of the government doing so. “The bank-holding company should be run professionally and efficiently by bankers, including from the private sector, without interference from the bureaucracy or the political leadership,” said the official quoted above. The letters of undertaking scam, which hit PNB, and the case of the owners of Rotomac Pens owing Rs 37 billion to various PSBs, the calls for privatising state-owned banks have increased and the Narendra Modi government has come under criticism for not moving ahead with consolidation and privatisation of banks fast enough.

Jaitley had said at an event on Tuesday that privatising PSBs was a challenging decision and would involve a very large bipartisan political consensus. While the formation of a holding company will not outright privatise state-owned banks, officials believe it will help the Centre deflect criticism arising out of the latest banking scams. As reported in Business Standard earlier, the BBB could

be wound up in March. So far, the government has placed the onus on banks, auditors, and the RBI to tighten vigilance and internal and external checks and balances.

(Business Standard)