



## Should public sector banks be privatized?

### Description

Due to increasing banking scams, lack of dynamism and bad corporate governance which ultimately lead to declining trust in the public sector banks, the question of privatization is a burning one. There are mixed sentiments about the same. While some argue that growth of PSBs is possible only when left to private sector, some advocate for a case of no privatization on account of consumer faith due to government ownership, while some consider public-private ownership the best option to provide relief to the situation of banking crisis.

### Yes: Public Sector Banks Should Be Privatized-

- Private banks have higher productivity:

Higher productivity in the banking sector is desirable because it speeds up the credit growth which leads to faster expansion of priority sector lending, which is an important social goal. Along with this it will also enhance the growth of the economy.

- Better governance:

One of the major reasons why privatization is favoured is the need for better governance in PSBs. The 2014 PJ Nayak Committee noted that the board of most of the PSBs is compromised and lack the sense of purpose. The committee recommended reforms to instil responsibility in the board.

- Social goals can be achieved better:

The fact that PSBs are required to meet the social goals is a myth. The private banks have satisfactorily met their targets and sometimes done even better in this respect, with the help of RBI regulations and directives. Thus it is important to weigh the social benefits of PSBs against the cost they impose on the investors repeatedly.

- Losing market share:

The Public Sector banks have been losing market share because of their lower efficiency levels and lack of innovation, whereas the private sector banks are gaining. Thus the government should consider lowering its ownership and encouraging privatization.

- No benefit to common man:

The evil of corruption is majorly evident in the PSBs. This is due to interference by politicians in the bank policy and the lazy staff. These factors contribute to negligence and banking crisis. Overall this leads to loss of trust among people and ultimately no benefit for the common man.

- Private sector banks have rigorous marketing:

The private sector banks have succeeded due to their aggressive marketing strategies and have capital to spend, whereas public sectors banks are unable to attract customers.

### **No: Public Sector Banks Should Not Be Privatized-**

- PSBs are required to serve in rural areas:

In the rural areas only the public sector banks provide the services. The private sector banks concentrate on making in profits thus their reach is limited to metro/urban and semi-urban areas. It is very cumbersome to make banking services available in the underprivileged areas. Thus only the Public Sector banks can fulfill this as the social policy of the government.

- There are issues in every banking model:

Irrespective of the kind of banking model there are always some issues. Even if it is a private sector bank the government will have to intervene to save the bank in case of default. Thus completely trusting private sector banks on account of no defaults is not the right option.

- People still have confidence in PSBs due to government ownership:

Mr Rajnish Kumar, the chairman of State Bank of India told Economic Times in an interview that irrespective of the Nirav Modi case people haven't withdrawn money from Punjab National Bank as they still have faith in the bank due to government ownership.

- Overhauling is the solution:

If a government company is malfunctioning then overhaul is a better solution than privatization to improve governance and increase the efficiency of the board by equipping them with expertise to assess the pros and cons of a particular deal.

- Public Sector banks are essential for Government's socio-economic agenda:

Public Sector banks are meant for the upliftment of the society, this doesn't mean that they should not generate profits. It should be noted that the PSBs are the cash generators of the

government and provide continuous stream of income in form of dividends. Apart from this, every government scheme has the involvement of public sector banks. Thus rather than privatization the focus should be on independence of public sector banks.

- Not all Public Sector bankers should not be criticized:

The unprecedented success of Jan Dhan Yojana is the best example for the same. No private sector bank came forward, only the public sector bankers did the extra work along with their regular jobs.

### **Conclusion:**

Many people argue for the case of no privatization and advice overhauling or independence as measures to improve the situation of Public Sector banks. This seems right, but the benefits from privatization of banks should not be ignored either. It can be concluded that both kinds of banking structures are essential for the economy.

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