A RESEARCH STUDY OF BANK BOARD BUREAU (BBB) & ITS IMPACT ON INDIAN BANKING SYSTEM DURING COMPLETED FIRST FIVE YEAR

Dr.MOHD NASEEM SIDDIQUI

Life Member Of I.S.C.A.Kolkata

& Assistant Professor

Department Of Commerce

MUMTAZ P.G.COLLEGE,LUCKNOW

Associated with university of Lucknow

PRAMOD KUMAR YADAV

Assistant Professor

Department Of Commerce

SHRI P.L.MEMORIAL P.G.COLLEGE

BARABANKI, U.P

ABSTRACT

*Central Government notified the amendment to the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1980 providing the legal framework for composition and functions of the Banks Board Bureau on March 23, 2016. The Bureau accordingly started functioning from April 01, 2016 as an autonomous recommendatory body.[2] The BBB works as step towards governance reforms in Public Sector Banks (PSBs) Bhanu Pratap Sharma is the Chairman of the Mumbai[4] based Bureau. What are the reasons of its ineffectiveness? • In many instances, its recommendations are ignored by the government. • Rather than going to the cabinet for approval, its recommendations are re-scrutinised and sometimes overruled by the finance ministry. • Its incomplete control over the choice of members of bank boards is also clearly visible.**Banks Board Bureau (BBB)** is an autonomous body of the Government of India[1] tasked to Search and Select apposite personages for Board of Public Sector Banks, Public Sector Financial Institutions and Public Sector Insurance Companies and recommend measures to improve Corporate Governance in these Institutions.*

KEYWORDS; A-Autonomous, G-Governance, A-Approval, S-Scrutinised, I-Institutions.

The mandate of the Bureau includes

- To recommend the selection and appointment of Board of Directors in Nationalised Banks, Financial Institutions and Public Sector Insurance Companies (Whole Time Directors and Chairman);
- To advise the Central Government on matters relating to appointments, confirmation or extension of tenure and termination of services of the Directors of mandated institutions;
- To advise the Central Government on the desired management structure of mandated institutions, at the level of Board of Directors and senior management;
- To advise the Central Government on a suitable performance appraisal system for mandated institutions;
- To build a data bank containing data relating to the performance of mandated institutions and its officers;
- To advise the Central Government on the formulation and enforcement of a code of conduct and ethics for managerial personnel in mandated institutions.
- To advise the Central Government on evolving suitable training and development programs for managerial personnel in mandated institutions
- To help the banks in terms of developing business strategies and capital raising plan and the like;
- Any other work assigned by the Government in consultation with Reserve Bank of India.

- The BBB was created after the recommendations of the Committee to Review
- Governance of Boards of Banks in India (Chairman -PJ Nayak Committee – 2014).
- Main objective of the creation of BBB was to empower the boards of the Public Sector Banks.
- It was created in February 2016 and started functioning from April 2016.
- It is an autonomous recommendatory body.
- A search Committee including the RBI Governor recommends the names for the appointment of BBB members.
- The six member BBB panel has three government officials and three experts, of which two are from banking sector.

THE P.J.NAYAK.COMMITTEE

The P J Nayak Committee or officially the Committee to Review Governance of Boards of Banks in India was set up by the Reserve Bank of India (RBI) to review the governance of the board of banks in India. The Committee was set up in January 2014. The Committee was chaired by P J Nayak, the former CEO and Chairman of Axis Bank.

P J Nayak Committee Objectives

1. To review the regulatory compliance requirements of boards of banks in the country to evaluate what can be rationalised and where requirements need to be enhanced.

2. To examine the workings of the boards of banks including if sufficient time is given to strategy issues, governance, growth and risk management.
3. To review RBI regulatory guidelines on bank ownership, ownership concentration and board concentration.
4. To study the compensation of the board.
5. To study the representation in the banks' board, to check if the boards have the required mix of capabilities and the required independence to govern, and to inquire into possible conflict of interest in board representation.
6. To study any other issues pertinent to the functioning and governance of the boards of banks.

Why was the P J Nayak Committee set up?

In nationalised banks, the government owns more than 50% of the shares, which gives it the majority voting rights. Because of this, the government can interfere in the boards of such banks and appoint inefficient people to the boards. That is, the appointment of the members might not always be based on merit. This will lead to overall efficiency and scams such as the Syndicate Bank scam.

PJ Nayak Committee Recommendations

1. Repeal the Bank Nationalisation Act (1970, 1980), the SBI Act and the SBI Subsidiaries Act. This is because these acts require the government to have above 50% share in the banks.
2. After the above acts are repealed, the government should set up a Bank Investment Company (BIC) as a holding company or a core investment company.
3. The government to transfer its share in the banks to this BIC. Thus, the BIC would become the parent holding company of all these national banks, which would become subsidiaries. As a result of this, all the PSBs (public sector banks) would become 'limited' banks. BIC will be autonomous and have the power to appoint the Board of Directors and make other policy decisions.
4. Until the BIC is formed, a temporary body called the Bank Boards Bureau (BBB) will be formed to do the functions of the BIC. Once BIC is formed, the BBB will be dissolved.
5. The BBB will advise on appointments to the board, banks' chairman and other executive directors.

Arguments in favour of the recommendations

- The chairman's pay will be linked to profits. So, he/she will focus on marketing, improving customer base and advertisements.
- The banks will be under only RBI supervision and not the CVC, RTI and CAG. This will make the banks more amenable to taking calculated risks. In nationalised banks, because they are subject to supervision from CAG, RTI, etc. bold decisions are not taken by the management.
- Generally, national banks invest their profits in government securities only. Hence, they do not make huge profits because government securities are considered safe bets. This is also because the government owns majority shares in them which indirectly controls where they invest in. This is also called 'fiscal repression'. This can be avoided because private banks invest in securities that give higher returns than G-secs.
- Nationalised banks could be forced to bailout loss-making entities (like the case with UTI and IDBI).
- Nationalised banks were also forced to give cheap loans to FCI and also waive off farmers' debts.

Arguments against the recommendations

- Some people argue that lowering the government share to below 51% will make the banks only 'profit-motive'. In India, financial inclusion in rural areas is less and if banks run only for profits, no branches will be set up in villages.

- When the oversight of the CAG and CVC are gone, there is a possibility of fraud.

Following are the main functions of the BBB.

Responsible for the selection and appointment of Board of Directors in PSBs and FIs (Whole-time Directors and Non-Executive Chairman);

1. Advise the Government on matters relating to appointments, confirmation or extension of tenure and termination of services of the Board of Directors of the above-mentioned levels.
2. To advise the Government on the desired structure at the Board level, and, for senior management personnel, for each PSB and Financial Institution (FI).
3. To help banks to develop a robust leadership succession plan for critical positions that would arise in future through appropriate HR processes including performance management systems.
4. To build a data bank containing data relating to the performance of PSBs/FIs and its officers.
5. To advise the Government on the formulation and enforcement of a code of conduct and ethics for managerial personal in PSBs/Financial Institutions.
6. To advise the Government on evolving suitable training and development programmes for management personnel in PSBs/FIs; and
7. To help banks in terms of developing business strategies and capital raising plan etc.

Agenda/Functions Of BBB

The broad agenda of the Banks Board Bureau was the administration of state-owned lenders. Its functions involve:

- providing assistance to Public Sector Banks to restructure their business strategies
- Assisting banks with the strategies to deal with issues of bad loans or stressed assets
- Strategies for raising capitals through innovative financial instruments and methods
- Recommendations to the government on top-level appointments like full-time Directors, non-Executive Chairman in PSBs.
- suggest plans for consolidation and merger with other banks while they are trapped in the problem of high collective gross NPAs.

Composition Of BBB

Based on the recommendations of the Nayak committee appointed by RBI, the Union Government in order to revamp PSBs announced BBB in August 2015 as part of seven points Indradhanush Mission to revamp PSBs. Based in Mumbai, Maharashtra the first Banks Board Bureau was set up in February 2016 under the chairmanship of former Comptroller & Auditor General Vinod Rai.

Banks Board Bureau was a replacement to the preceding Appointments Board of the Government. The aim of establishing BBB was to presage a new era of authority and business strategies for state-owned banks that could place them comparable with the relatively privileged private sector peers.

Banks Board Bureau comprises the Chairman, three ex-officio members i.e Secretary, Department of Public Enterprises, Secretary of the Department of Financial Services and Deputy Governor of the Reserve Bank of India, and five expert members, two of which are from the private sector.

BBB was a part of the seven-point strategy of the Indradhanush Mission aimed at revamping the Public Sector Banks. It is an autonomous body of officials and distinguished professionals for the PSBs (Public Sector Banks).

Mission Indradhanush for PSBs - Revamping Public Sector Banks

The need for effective Public Sector Banks (PSBs) has been re-emphasised by the Prime minister through a webinar on effective implementation of Union Budget 2021 provisions regarding financial services.

The reforms in PSBs always remain in the economic debates. In February 2021, Government also announced to privatise two public sector banks in the year 2021.

This makes it important for candidates to know about **Mission Indradhanush for PSBs** that was launched by the Government in 2015. The government, to resolve the issues faced by the Public Sector Banks, launched a 7 pronged plan called "Mission Indradhanush."

The Indradhanush for PSBs mission aims at revamping the functioning of the Public Sector Banks to enable them to compete with the Private Sector Banks. It seeks to revive economic growth through the reduction of political interference in the functioning of PSBs and improving credit.

Components of Mission Indradhanush for PSBs

Many of the measures are suggested by the PJ Nayak Committee on the banking reforms. The 7 components of the Mission (symbolic of 7 colours of the rainbow) plan to address the challenges faced by the Public Sector Banks. The 7 components include:

1. **A**ppointments: Besides induction of talent from the Private Sector into the public banks, separation of the posts of Chief Executive Officer and the Managing Director, in order to check the excessive concentration of power and smooth functioning of the banks

   2 .**B**ank Boards Bureau: The appointments Board of the Public Sector Banks would be replaced by the Bank Boards Bureau (BBB). Advice would be rendered to the banks in the matters of raising funds, mergers and acquisitions etc by the BBB. It would also hold the bad assets of the Public Sector Banks. The BBB separates the functioning of the PSBs from the government by acting as a middleman.

Capitalisation: Due to the high NPAs and the need to meet the provisions of the Basel III norms, capitalization of banks by inducing Rs. 70000 crore was planned.

De-stressing: Solving issues arising in the infrastructure sector in order to check the stressed assets in the banks by strengthening the asset reconstruction companies. Development of a vibrant debt market for PSBs.

Empowerment: Providing greater flexibility and autonomy to PSBs in hiring manpower.

Framework of Accountability: The assessment of the banks would be based on a few key performance indicators. It would be inclusive of

- Quantitative Parameters such as Non-Performing Assets Management, growth, diversification, return on capital, financial inclusion and
- Qualitative Parameters such as steps taken in improving asset quality, human resources initiatives etc.
- Governance Reforms: Banker's Retreat or the Gyan Sangam conferences between the bankers and the government officials for resolving the banking sector issues and deciding the future course of action.

Acts And Reforms In Banking Sector

As a part of the growing trend towards globalization and economic liberalization, various banking reforms and acts have been introduced in India to upgrade the health and financial soundness of banks and to improve the operation efficiency so that Indian banks can meet globally accepted performance standards.

List of Important Banking Reforms & Acts-

The introduction of reforms in the banking sector was based on the commendations of different committees.

The committees that proposed the Banking sector reforms are as mentioned below:

- The first Narasimhan Committee- 1991
- The Verma Committee – 1996
- The Khan Committee – 1997
- The Second Narasimhan Committee – 1998

The reforms in the Banking Sector were done in two phases.

The first phase of the reform focused on improving the policy framework, institutional framework and financial health.

- Policy Framework improvement – this included deregulation of interest rates, reducing the Cash Reserve Ratio to the initial standard, phasing out Statutory Liquidity Ratio, widening the scope of priority sector lending by linking the lending rates to the size of advances.
- Institutional Framework improvement: this focused on recapitalization, strengthening the supervisory system and creating a competitive environment.
- To Improve the financial soundness of the banking sector certain prudent norms were prescribed and steps were taken to re-duct the proportion of NPAs.

The Second Phase of the banking sector reforms concentrates on reinforcing the very foundation of the banking system by rehabilitating the structure of the banking industry, development of human resources, and technological enhancements.

Serial No.	Names of the Banking Acts and Reforms	Years
1.	Societies Registration Act	1860
2.	Negotiable Instrument Act	1881
3.	Indian Trusts Act	1882
4.	The Bankers' Books Evidence Act	1891
5.	Indian Stamp Act	1899
6.	Co-operative Societies Act	1912
7.	Provident Funds Act	1925
8.	Indian Partnership Act	1934
9.	The Reserve Bank of India Act	1934
10.	Insurance Act	1938
11.	Central Excise Act	1944
12.	Public Debt Act	1944
13.	International Monetary Fund and Bank Act	1945
14.	Employees' State Insurance Act	1948
15.	The Industrial Finance Corporation of India Act	1948
16.	The Banking Companies (Legal Practitioner Clients' Accounts) Act	1949
17.	The Industrial Disputes (Banking and Insurance Companies) Act	1949
18.	The Banking Regulation(Companies) Rules	1949
19.	The Banking Regulation Act	1949
20.	Chartered Accountants Act	1949
21.	Contingency Fund of India Act	1950
22.	The State Financial Corporations Act	1951

23.	Employees Provident Fund and Miscellaneous Provisions Act	1952
24.	The Reserve Bank of India (Amendment and Misc. Provisions) Act	1953
25.	The Industrial Disputes (Banking Companies) Decision Act	1955
26.	The State Bank of India Act	1955
27.	Life Insurance Corporation Act	1956
28.	Companies Act	1956
29.	Central Sales Tax Act	1956
30.	The State Bank of India (Subsidiary Banks) Act	1959
31.	The Subsidiary Banks General Regulation	1959
32.	The Deposit Insurance and Credit Guarantee Corporation Act	1961
33.	Customs Act	1962
34.	Unit Trust of India Act	1963
35.	Limitation Act	1963
36.	Nationalization of Banks Act (However, the government decided to nationalize 14 major commercial banks on 19th July 1969)	1964
37.	Banking Laws (Application to Co-operative Societies) Act	1965
38.	Banking Companies (Acquisition and Transfer of Undertaking) Act	1969
39.	The Nationalized Banks (Management and Miscellaneous Provisions) Scheme	1970
40.	The Banking Companies (Acquisition and Transfer of Undertakings) Act	1970
41.	The Regional Rural Banks Act	1976
42.	Foreign Contribution (Regulation) Act	1976
43.	The Banking Companies (Acquisition and Transfer of Undertakings) Act	1980
44.	The Export-Import Bank of India Act	1981
45.	The National Bank for Agriculture and Rural Development Act	1981
46.	Chit Fund Act	1982
47.	Sick Industrial Companies (Special Provisions)Act	1985

48.	Shipping Development Fund Committee (Abolition) Act	1985
49.	Banking Companies (Regulation)Rules	1985
50.	The National Housing Bank Act	1987
51.	SIDBI Act	1989
52.	SIDBI General Regulations	1990
53.	Securities and Exchange Board of India Act	1992
54.	The Special Court (trial of Offences relating to Transactions in Securities) Act	1992
55.	The Industrial Finance Corporation (Transfer of Undertakings and Repeal) Act	1993
56.	Recovery of Debts due to Banks and Financial Institutions Act	1993
57.	Debts Recovery Appellate Tribunal (Procedure) Rules	1994
58.	Industrial Reconstruction Bank (Transfer of Undertaking & Appeal) Act	1997
59.	Foreign Exchange Management Act	1999
60.	Insurance Regulatory and Development Authority Act	1999
61.	Prevention of Money Laundering Act	2002
62.	Fiscal Responsibility and Budget Management Act	2002
63.	The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act	2002
64.	Industrial Development Bank (Transfer of Undertaking & Repeal) Act	2003
65.	Credit Information Companies (Rules & Regulation) Act	2005
66.	Government Securities Act	2006
67.	The Banking Ombudsman Scheme	2006
68.	Factoring Act Rules	2011
69.	SARFAESI (Central registry) Rules	2011
70.	Securities Law (Amendment) Act	2014
71.	The Regional Rural Banks (Amendment) Act – Diluted the sharing pattern by limiting the composite share of Central Government and sponsor bank to 51%	2014

72.	The Insurance Laws (Amendment) Act- pushed FDI limit to 49%	2015
73.	The Companies Act (Amended) (legislated in 1956)	2015

How will the Mega Merger Impact Indian Economy at Large?

- **Economic growth** needs inflow of **credit** (as debt) and **investment** (as equity). Banks are **intermediaries** which make the savings of some customers available to others in the form of credit. Bigger banks could **lend more** and have a stronger **presence**.
- Bigger banks can provide loans to **big projects** and individual **level small projects** Such projects in turn creates **more jobs**.

Big projects in the past had to approach so many banks for loans, which were often not more than 1-2% of the project cost, since banks in the past had no capacity to fund them significantly.

- Bigger banks are able to invest in **innovative products** for retail customers (Ex.: The **SBI YONO app** allowed customers to use their mobile phones instead of cards for many banking transactions.)
- Bigger banks could focus more in the **foreign market** by leveraging the existing network of oversees banks.
- Consolidation of PSBs leads to a steady state of 8 PSBs (including the 4 merged ones) with a **global aspiration and reach**.
- Banks have the option of increasing their **Efficiency** by multiplying its presence in the selected **regions** where they find huge business opportunity. Such rationalisation ensures that they don't compete with each other outside India.

- Government is required to ensure that the **leadership** of the merged entities is able to deliver the outcomes envisaged. Seniority should not be the single most criteria for the selection of leadership.
- Finance Minister has announced the recruitment of **non-official directors** from the open market talent pool.
- The **Bank Boards Bureau (BBB)** needs to continue the practice of inviting application for CEO post in some PSBs. In 2014-15, CEO post of certain banks were opened for recruitment from the open market.
- It is required to ensure that customers will not face any inconvenience. Bank managements **need to discuss with each other** the blueprint of future course before **1st April, 2020**, the probable date for the enforcement of the merger.
- Top management of banks also need to **learn from the disruptions caused by earlier mergers**.
- The power of **bank boards** need to be increased in terms of decision making, reviewing, etc.
- The Government of India recently appointed S Ramann as the Chairman and Managing Director of Small Industries and Development Bank of India. About the Appointment The appointment is for a period of three years. The name of the new Chairman and Managing Director was recommended by Banks Board Bureau. Banks Board Bureau It is an .

RECENT PERFORMANCE OF BANK BOARD BUREAU

Hemant Bhargava, the senior-most MD at LIC, has been appointed acting Chairman of LIC. The move comes after VK Sharma retired from the top job at LIC on 31st December 2018. In order to select new chairman and one MD, selection process will be conducted by Banks Board Bureau

Banks Board Bureau (BBB) has appointed two firms Egon Zehnder International Pvt. Ltd and Hay Consultants Pvt. Ltd to assist in developing strategies for top bank management. Key Facts Egon Zehnder was appointed as knowledge partner to design, implement and institutionalise a flagship leadership development strategy for state-run banks in India. Hay Consultants was appointed

The Banks Board Bureau (BBB) has recommended 15 executive directors to be elevated as managing directors (MD) at various public sector banks (PSBs). It was headed by former Department of Personnel and Training Secretary B P Sharma. These recommendations were based on interactions held by BBB and are subject to various clearances. The Appointments Committee

Banks Board Bureau (BBB) has recommended 22 general managers to be elevated as executive directors at the various public sector banks (PSBs). This is the first major exercise undertaken by reconstituted BBB, headed by newly appointed Chairman BP Sharma, former Secretary, Department of Personnel and Training. These recommendations were based on interactions held by BBB

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