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BANDHAN BANK
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INDIAN ECONOMY: ASKING THE RIGHT QUESTIONS

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Dear Friends,

I am thankful to Bandhan Bank, in particular, Mr. Chandra Shekhar Ghosh and my friend Mr. Tamal Bandyopadhyay, for giving me this opportunity to be with you. I have high professional regard and personal affection for Tamal.

This is a foundation day lecture. Let me wish the organisation many happy returns. It has done a lot of good, particularly to the common person. I know the past Chairman, Ashok Lahiri in the government and current chairman H.R. Khan at the Reserve Bank of India. I worked with both of them with affection and pleasure. The bank is fortunate to have such chairmen.

I did not know Mr. Ghosh. So I asked a friend of mine, for her assessment of the institution and the man who built the organisation. Let me quote from her response: "Chandrashekhar Ghosh started Bandhan Microfinance with 2 lakh rupees of his savings, initially loaning only to women.

Today the bank has advances and deposits of 32,000 crore, serving 16 million customers. Ghosh has built Bandhan on a principle of commercial profit plus social good. He strongly believes either of them alone won't work for the bottom echelons of India. True to this principle, the group runs many social programmes".

I understand that the bank's current status is even more impressive.

That explains why I am here to pay tributes. We cannot afford to have bleeding hearts without a thinking mind. .

This event has also provided me with an opportunity to think broadly about the current controversial issues from the common person's point of view. I will share my reactions to some of these issues. I will draw upon my experience in Andhra Pradesh government, Government of India as Secretary (Banking), and Reserve Bank of India, and now a common person, for past ten years.

When I was working with the Andhra Pradesh Chief Minister N.T. Rama Rao, I had an interesting experience. He was giving a Press Interview about economy of Andhra Pradesh. As Planning Secretary, I gave him the relevant information and a brief for the Press Interview. When the media persons asked questions, NTR was giving answers which had nothing to do with the questions or the material I gave him. After the interview, he explained to me: "Venugopal Reddy garu, they are paid to put questions. I am not paid to answer their questions. I will give whatever answers are useful for me."

In those days, answers were not relevant. Nowadays, the questions may not be relevant to the real issues.

The questions, however, may be relevant to one interested party or the other. For example, many questions relate to impact of our policies on foreign investments in India. Actually less than 10 per cent of investments in India are financed by foreign savings. Most of the investments in India, whether in public sector or private sector, are funded by the savings of the households and a majority of them through our banks. But, if you hear the business news channels on TV or read business journals, you will think that the aggregate investments in India are mostly by foreigners. How a policy decision affects domestic savers is seldom discussed because the common person is taken for granted by those who matter.

There is one more interesting thing about the public debate on current issues. For every question, the answer is blaming someone else. Everybody blames everybody else. The bank defaulters blame the banks, and the bank officials blame the defaulters; the government blames the RBI and the RBI blames the government.

At the end of the day, we are ignorant about the real problem as well as the real solution. The intellectuals do analyse many issues but they take us to a higher level of confusion. We witness shouting matches, and on occasions, fist fights, but not an informed debate on current issues.

There is another painful reality in our discourses. We find arguments about who indulged in more corruption or more cheating, and not why the cheating took place at all. In other words, in public discourses, we all become "Argumentative Indians", to use the famous title of a book by Amartya Sen, globally respected Noble Prize winner and an economist.

Argumentative is someone quick to disagree and argue. My submission is that we should become "Questioning Indians" also, not merely argumentative Indians. I believe that if we learn the art and science of asking right questions, there is a good chance that we will find meaningful answers.

In this lecture, I will attempt asking some questions which appear to me to be bothering a common person and explore plausible answers.

The questions are:

In recent months, the RBI has said that it does not have enough powers to regulate the public sector banks. However, the government explains that the RBI has adequate powers. Are they not responsible together as far as people of India are concerned?

In the current environment, are the deposits in the banks safe?

Are the bank depositors getting reasonable returns on their savings?

Are there better alternatives available to the depositors?

Are the borrowers able to get loans from the banks and at what terms?

How bad is the bad loan or NPA problem in Indian banking system and who is the most affected?

How to deal with loan defaulters?

How do all these affect a common person?

What are the tasks ahead?

What are the big questions that we are not addressing?

Now, let me try to answer them.

Problem of Dual Control over Public Sector Banks

Who is primarily responsible, the government or the RBI, for banking issues? For public sector banks, both exercise control, described as dual control; and, for private sector banks, RBI is the sole regulator.

The two major segments in our banking are public sector banks, majority owned and controlled by the government, and private sector banks. RBI, also owned and controlled by the government, regulates all banks. Indian Government, the sovereign, owns the regulator, namely, RBI, and also owns the regulated, namely, public sector banks. The government is also a sovereign who sets the rules that should govern the relationships between the owner, the regulated and the regulator.

There are two aspects to the regulation and supervision of the banks -- governance and prudential regulation. The governance relates to the fit and proper criteria of the board of directors, the senior management and their role in the functioning of the banks. The RBI regulates both governance aspects and prudential aspects of private sector banks. In the case of public sector banks, the government exercises all the powers relating to governance, leaving prudential regulation to the RBI.

This has been identified as a problem -- the problem of dual control -- by the Narasimham Committee, 25 years ago. M. Narasimham, a former RBI Governor, headed two committees -- one on financial sector reform and the second on public sector banking.

The Narasimham Committee on banking recommended among many things that an end should be put to such dual control. The recommendations were accepted in principle, and many of them, especially those relating to RBI, have been carried out. Successive governments led by different political parties have not implemented this particular recommendation.

In brief, the government is fully responsible for perpetuating the problem of dual control for over 25 years. There must be reasons for this state of affairs. They are called political economy considerations.

Incidentally, I noticed that the government has taken a stand that there is no problem of dual control since the RBI has enough powers to regulate public sector banks. This is contrary to RBI views.

As I see it, we have a problem of dual views on dual control.

The public sector banks owned by the Government of India provided depositor's money as a source of funding government programmes – an extra budgetary resource. The banks provided administrative machinery for central government in all the States to do its bidding. In a way, the credit flow from banks to private sector is also indirectly controlled by the government. These are politically economic benefits of dual control.

In brief, there is merit in ending the dual control, and only the government can do it.

One option for the government is to self-regulate public sector banks and get the RBI out of the picture. The other option is to accord jurisdiction to RBI over public sector banks also on a par with private sector banks. This is what RBI Governor Urjit Patel describes as regulation being ownership-neutral.

Operationally, it means that the public sector banks which are established under statutes of Parliament should be reorganised as entities under Companies Act, duly licensed by RBI as a bank. If the banks are incorporated under Companies Act, the government acquires flexibility to buy or sell its shareholding without Parliamentary approval.

Are Bank Deposits Safe?

People believe that deposits in public sector banks are 100 per cent safe. They are right in believing so. Public sector banks are not limited liability companies. They are entities established under Parliamentary Legislation, implicitly holding out promise of backing of the sovereign. Private sector banks, on the other hand, are established under Companies Act and liable to insolvency. The RBI has powers to cancel the licences of private sector banks, but has no powers to do so in respect of public sector banks.

Technically, deposits up to only Rs1 lakh are covered by the Deposits Insurance & Credit Guarantee Corporation. In reality, the RBI has always taken preventive actions and, with the approval of Government of India, merged many private sector banks. In the last 25 years, several private sector banks were wound up or merged with others, without depositors losing money. However, there were a few Urban Cooperative Banks where the depositors lost money.

Very recently, there was a proposal to treat bank depositors on a par with other creditors, but fortunately that proposal has been dropped by the government.

In brief, technically bank depositors are not fully protected, but in reality most of them are protected. There is constructive ambiguity on about when and how RBI will deal with the bank where depositors' interests are seriously threatened. Currently, there is adequate capital in respect of private sector banks.

Let me give an example. There was a bank called Global Trust Bank. When I was a Deputy Governor, it asked for temporary support of crores of rupees from RBI, as a lender of last resort. We lent money to save the system, but the CEO of the bank had to resign. Later, when I was the Governor, we had to protect depositors, but in the process the GTB was merged with a public sector bank. It was alleged that shareholders' rights were undermined to protect the depositors. This case illustrates the RBI's powers to protect the depositors' interests which the central bank has exercised in the past.

As of now, bank deposits continue to be as safe as ever for two reasons. First, the private sector banks have adequate capital now and, second, the public sector banks have implicit guarantee of the government, though there is inadequate capital now.

Are the Returns on Savings Reasonable?

The depositors complain about negative returns on their bank deposits because the interest earned on one-year deposit is most of the time less than the inflation. Therefore, people who put money in bank deposits are, in fact, losing the real value of their savings over time. If they are tax payers and if their income is liable to tax, they end up with bigger loss on their savings.

So, the depositors are right in their perception that they are losing value by putting money in banks.

Two of the reasons for this are: Inefficiency of the banking system, and external constrains imposed on the banks by the government and the RBI. It is difficult to estimate the inefficiency of the banking system, but a very simple indicator is the difference between the interest paid by the banks to the savers and the interest charged for the loans to the borrowers. This may be called cost of intermediation. This cost is easily highest in India, though part of it may be due to external constraints.

Indeed, there are several external constraints. The banks are obliged to invest at least 19.5 per cent of their amount received as deposits in government securities. This high level of pre-emption is meant to ensure that the government gets support for its borrowing programme. The banks receive less interest from government securities than loans. The banks are also required to keep high level of cash reserve ratio or CRR, that is, cash kept in RBI to the extent of 4 per cent of deposits. In addition, the banks are required to give priority sector lending – 40 per cent of their loans -- which may or may not be as profitable as commercial operations.

In a way, for public sector banks, the external constraints are even more because their lending and other operations have to contribute to policy objectives (and other requirements) of its owner, in addition to commercial objectives.

There is no other major country in the world, to my knowledge, which imposes what is called burden of financial repression, on this scale and intensity.

What could be done to reduce cost of intermediation? The statutory liquidity ratio has to be reduced to a level that is warranted for prudential needs only – say to 5 per cent within a pre-announced timeframe. Similarly, the level of CRR should be reviewed.

The banks can lend only if they have deposits. We keep asking questions about credit flow but not depositors. We should think of bank loans and bank depositors together.

What are the Alternatives to Bank Depositors for Saving?

It is surprising that a large number of small savers put their money in bank deposits, in preference to mutual funds or direct participation in equity or bond markets. Unlike the bank deposits, the alternatives, especially mutual funds, do not have externally imposed constraints like the banks. In fact, many of the investors in mutual funds enjoy tax advantages. Yet, the savers prefer bank deposits though recently there is a shift from banks to mutual funds. The depositors may be right in preferring bank deposits.

The environment in which the mutual fund industry works in India may be the reason behind it. Several initiatives to improve the mutual fund industry could be considered to give alternatives to bank deposits for savers. Firstly, there is no regulator to regulate the relevant institutions like RBI for banks; IRDA for Insurance companies and PFRDA for Pension Funds, Provident

Funds, etc. A legislation establishing an institution to regulate mutual funds may be desirable.

Second, investments in mutual fund should be restricted to individuals. Currently, mutual funds are driven by large investors.

Thirdly, there are huge conflicts of interests because large corporations and banks have floated or sponsored mutual funds. Collusion between the investor, investee and mutual fund as intermediary within the financial industry is not good for the interests of individuals.

Direct participation of households in equity markets is an option. However, many households do not have enough time or skill to make informed decisions and participate in equity markets. This is the justification for mutual funds being encouraged. Further, the equity prices are determined more by foreign institutional investors. Hence, the returns depend on conditions in rest of the world. The equity market is also subject to considerable volatility in returns. The equity market is too risky and too volatile for average householders in our country.

Non-banking financial companies are expanding significantly. This, in some ways, is a reflection of low returns in the banks and lack of trust of the households in the capital markets. There is considerable scope for RBI to enhance the depositors trust in NBFCs without excessive restrictions on their lending operations. It must be recognised that NBFCs are expanding and playing a critical role in providing finance to large sections of population. The borrowers would also benefit due to alternative sources of funding from banks.

Borrowing from Banks

Who are the borrowers from banks? The single largest borrower from the banking system is the governments – both central and state governments. The owner, the government, is the biggest borrower from public sector banks and, in a way, can be treated as connected lending. Public enterprises and financial enterprises would be second. The non-banking financial conglomerates also borrow from banks. Medium and small industries, and households, therefore, have to compete with these borrowers for resources available with the banks.

Generally, the transaction costs are high for non-corporate borrowers from the banking system. They are a dis-satisfied lot. They find that the procedural hassles are high. They have to make a number of trips and produce huge documentation. The banks want collateral security, that is, property or gold to be pledged.

Often there are delays and amounts made available are inadequate. Many of these are procedural matters. Some of the private sector banks have simplified the procedures. Technology has also enabled improvements in the system. We must recognise that the banks also consider transaction costs of lending to non-corporate borrowers are high and the hassles are too many.

The purposes for which the banks lend are also varied. Traditionally, the banks have been providing working capital and some amounts for investments. Typically, the banks receive short-term deposits and lend to their own account holders whose cash flow could be easily tracked.

However, over a period, the share of lending of working capital by the banks has come down. Correspondingly, lending for financial activities has increased. In recent years, banks have been investing in other financial investments including mutual funds. Our banks have no expertise for long-term lending, but they have been persuaded to lend for infrastructure building. The latter requires long term funds, while the banks typically get short-term deposits.

The net result is that the banks are doing too many things, and in the process, neglecting the areas of their core competence. The cost of borrowing is high partly because of the cost of intermediation as explained earlier, and the pricing of risk.

How do we solve the problem?

First, the risk-taking capacity of borrowers and the riskiness in the use of such funds are varied and broad. The ideal strategy would be to augment the aggregates of supply, encourage multiple institutions and diversify sources of funds to the borrowers. For example, we should have banks like Bandhan Bank, and also wholesale banks which raise money from big savers or funds and lend to big borrowers where all players know the risks better. Indiscriminate subsidising of the interest rate is a wrong policy.

Second, the availability of savings should be increased. The demands on such savings by the large borrowers like government should be reduced to release the amounts for small business and agriculture.

Third, the cost of intermediation should be reduced, especially by removing external constraints.

Fourth, the sources of availability of funds for borrowers can be diversified. In this regard, the role of NBFCs and microfinance institutions should be appreciated.

Finally, we cannot wish away the fact that many borrowers depend on money lenders for their day-to-day needs. The money lenders have some advantages and, therefore, should be considered as a legitimate source for borrowing. This subject is in the jurisdiction of the State Governments. The RBI had suggested a model legislation for State Governments to recognise and regulate the role of money lenders in our economy. I would advise the State Governments to consider an appropriate legislation. The State Governments should also strengthen their capacities to regulate financial activities such as Chit Funds in their jurisdiction.

<u>The Problem of NPAs</u>

What is an NPA? Technically, it means that borrower is not paying interest or principal due to a bank beyond a reasonable grace period. It is important for any regulator to make sure that the banks have adequate capital to honour commitment to the depositors.

The current high level of NPAs gives an exaggerated view of the problem; because it is an accumulated problem shown in a single year. When

NPAs increase, the owner has to inject additional capital or narrow down business of the affected banks. So, the owner should be worried. The owner has to prevent and pay for the high NPAs because the market capitalisation is also eroded.

The most striking aspect of the current situation is the large divergence between the bank's classification and subsequent classification by the RBI on a detailed scrutiny. Perhaps, the auditors who audited banks had a one-way bias, and they have incentives to do that. The auditors, in some ways, are the extended arms of the banking regulator. They are authorised, franchised and licensed by the government.

In the current context, we should distinguish between underlying cause of NPAs in general and those which are of special relevance to the current bout of high NPAs. They may be exogenous factors, like economic cycle, industry cycle, policy paralysis, judicial activism, etc. There may be policy failures like using the banking system for multiple ends, and interference in conduct of business, or directing banks to fund infrastructure though they do not have expertise in it.

There may be regulatory failures such as excessive exposure to specific industries, or relaxed limits on group exposure, over-leverage of corporations, delayed recognition of NPA and corruption. There may be incidents of fraud by the borrower.

In brief, current NPAs may reflect more frauds than before but it cannot be the case that all NPAs are fallout of fraudulent activities. To the extent the NPAs are high in public sector banks, the government has to take the corrective action. The RBI has to address role of auditors and delays in recognition of NPAs and the government has to improve the credit culture and enforce contracts.

Several options were considered to address the NPA problem -- sometimes on a standalone basis and sometimes in conjunction with other measures to solve the underlying issues that result in demand for capital infusion. Consolidation of banks was an option, but by itself that does not increase capital or address weaknesses common to all banks being considered for consolidation. The establishment of a bad-loan bank was also suggested. Such a recourse was taken in other countries but to meet exogenous shock to the banking system and not endogenous stress.

Among other things, diluting the shareholding of government was proposed but that assumes private shareholders will be willing to buy at this juncture at a reasonable price. A combination of further regulatory forbearance and removal of constraints such as SLR or CRR was also proposed. But, such moves could have eroded the confidence of markets in the banking system and, in any case, may provide marginal relief to all – including private sector banks.

Finally, there seems to have been a consensus in favour of recapitalisation as the necessary first step while considering all other options to reduce chances of recurring of such problems in banking system.

Overall, sincere efforts are being made to improve the insolvency procedures and this is commendable. However, the RBI should avoid getting involved in individual cases, though the current situation might have necessitated extra-ordinary action.

In brief, since NPA is not today's problem there cannot be instant solutions. Some actions are being taken to tackle it. But, there is no clarity on the future of public sector banks.

<u>The Loan Defaulters</u>

When I was Secretary (Banking) in the Ministry of Finance, I had asked for the list of defaulters from RBI. I found that I was declared as a willful defaulter! The reason was simple. I was nominated by the Government of Andhra Pradesh to be a Director on the boards of two sick companies, to revive or sell them. I succeeded in one case, and I failed in another case. Since I failed and the company defaulted, I became a willful defaulter! The lesson is simple. It is very difficult to treat all defaulters as worthy of punishment.

Sometimes, there are confusing signals. For example, a loan waiver means all defaulting farmers are in distress. Can that be true? In fact, farmers who could not manage to get loans may be in distress. But, bankers are happy because the loans are repaid by the government. The tax payers pay the price.

There is also a demand for disclosing details of those who default to the banks. In ordinary course of business, there are occasions where prompt payment may not be possible. Making this public may either undermine the confidence in genuine businesses also or it may be totally ignored. In any case, the default of a loan is a matter between the lender and the borrower. That by itself should not be treated as a crime. If it is a fraud and a wrongful gain or a wrongful loss is suspected, it can certainly be punished under the Indian Penal Code.

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How much of time and cost of the government should be spent on punishing defaulters? There is cost of investigation, trial and punishment. So, we need to assess how much benefit we are getting. We have to weigh the investments required to punish those who are guilty and make sure that people who are not guilty are not harassed.

It is also necessary to look at the mind of the potential criminal. He or she weighs the probability of being caught, being investigated, prosecuted and finally held guilty by the court against the immediate benefits by committing a fraud. The record shows that very few among those who commit frauds are actually punished. In other words, the system of punishment as a whole has proved to be ineffective, if not counter-productive. Should we review evidence?

Who is paying for the NPA problem? Clearly, the owner of the banks has to pay the price because additional capital has to be provided as per the requirements of the regulator. Currently, the major problem is with the public sector banks. Hence, the government, as the owner, should be most worried. The tax payers should be the most worried lot. There are other indirect consequences mainly due to the delay in providing adequate capital to the distressed banks.

How do all These Affect a Common Person?

On the current reckoning, it is very clear that the economy is paying a price in terms of financing growth because the credit flow to the economic activities has been chocked with the public sector banks virtually becoming non-functional for the last couple of years. The private sector banks have certainly benefited to some extent in terms of expanding their business, profitability, and market capitalisation. The mutual fund industry too has expanded significantly.

The most important thing is that the government has been repeatedly injecting capital in public sector banks. The tax payers are paying for it. Who is a tax payer? Don't think that those who pay income tax are the only tax payers. Whenever we have a cup to tea or buy salt, we are paying tax. Therefore, every citizen should ask the question: What value am I getting for the tax I am paying?

We raised this question in the 14 Finance Commission report four years ago and suggested setting up of a national commission for reviewing the government investment in financial enterprises.

The Tasks Ahead:

The current stress is due to several reasons: (a) the delayed recognition of the problems in banking both by the government and the RBI; (b) their delayed response to the problem; (c) over-reaction in some aspects and inaction in some others, and (d) inadequate communication to maintain trust in the system.

Coherence, consistency and clarity are still lacking in addressing the immediate stress and ensuring an optimistic future.

Some policy actions such as insolvency code are certain to improve the system, but that is yet to be seen.

There are many areas that need attention.

First, we must put an end to the populist negativism. It is true that there were many questionable decisions taken by some banks in the past. The publicity to misdeeds in the banking industry, especially by large corporations and severe actions initiated by investigative agencies has received applause by the public at large. However, the damage that it is doing to the trust in the system and to the morale of the participants in the system has been totally under-estimated. We now must make efforts to restore confidence in the banking system.

Second, the government has done a very good thing by amending the Prevention of Corruption Act, confining criminality only to those who personally benefited. However, there are large backlog of cases with the Enforcement Directorate where action is being pursued. We had a similar problem when we replaced draconian FERA with FEMA for dealing with foreign exchange controls.

I was a Deputy Governor and later the Governor. Based on that experience, I have an advice. The investigative agencies should stay all investigations into persons who would not be guilty under the new law. They can seek permission of courts to withdraw all such cases simultaneously. This action will enable the investigation and courts to focus on those who materially benefited and expedite actions. In fact, the courts are also likely to take a sympathetic view to such cases. This is one action which may add to positive sentiment

Third, the quick-fix solutions to the problems will undermine the confidence in the system and postpone the problems and, in any case, will be counter-productive. For example, innovative financial mechanisms may give an impression that the banks have been de-risked, but in reality, the risks will lie somewhere else. It should be clear where it would be. Unlike private sector banks, where the risk can be assumed by the public authorities, the government has to ultimately bear the risk arising out of any financial engineering that it has taken recourse to in regard to the public sector banks.

Fourth, a vision for the future should be articulated as soon as possible and a medium-term plan of action must be chalked out to address the following:

a) What would be the configuration of ownership regulation and competition in the banking industry? The ownership and governance guidelines of the banks which were formulated years ago have become out-dated. There is considerable merit in redefining the parameters for foreign ownership and management in Indian banking industry. In fact, the ownership guidelines should be extended to NBFCs also since they are playing a pivotal role both in domestic and global finance.

b) Diversification of types of banks which has been initiated by former RBI Governor Rajan should be pursued. Multiple avenues in terms of institutions as well as instruments in respect of banks and non-banks are ideal for the future of the financial sector. That should serve both formal and informal sectors. That the banks are special and bank deposits are special should be recognised and the policy should be built around this basic dictum.

Finally, the Big Questions:

The biggest question in the current context is whether public ownership is preferable to private ownership. The answer can be ideological or instrumentalist. If we believe that public ownership is required at any cost, there can be no discussion. However, we have given up the ideological view having permitted large presence of private sector banking. Moreover, the share of private sector banking is increasing, while tax payer's money is being spent from time to time to recapitalise banks.

One option is to reform the public sector banks to make them perform as well as the private sector banks. The issue would then arise as to why the tax-payer's money should be locked up in public sector banks if they have to perform exactly the same way as the private sector banks. Inevitably, the logic is to take a pragmatic view or instrumentalist view of public ownership.

There can be a third way also, namely, a strategic view of public ownership. The strategic view is to have presence of public ownership with a defined purpose to take care of contingencies or activities that cannot be performed by the private sector. The common person, especially less-privileged section, feels at home with the public sector banks.

I will illustrate the instrumentalist view of public enterprise with some of my experiences. In Andhra Pradesh, we in the government sold a commercial vehicle factory to a private unit and we closed a scooter factory. But, we started a venture capital company to finance new types of industries with the World

Bank money. It has financed many new ventures since late 1980s. We also started A.P. Technology Services Ltd. to promote e-governance in the state – the first Indian state to do so. The big question is how best to get a good thing done and public policy should focus on goals. The markets are bad masters but good servants to public policy if you know how to use them.

The more important issue is whether the desired policy objectives can be obtained only with public ownership. With developments in technology and advances in the institutional capabilities, it has been possible to have options beyond public and private ownership. The government can expand and strengthen its role as a regulator and reduce its role as an owner. Secondly, the government funds broad activities, leaving the ownership and operations to the private sector. The activities themselves can be unbundled.

A telling example of use of private sector for specific task is processing of passports. The issue of passport is a sovereign function but the processing has already been out-sourced to the private sector. In brief, therefore, the future of public sector banking should be determined taking into account relative capabilities of public and private sector and the objectives that we have in mind.

It must be recognised that the financial sector needs to be regulated irrespective of ownership. In other words, the State or the Government is not leaving it entirely to the market, but is changing its role from being an owner as well as producer of banking services to one of being only regulator.

Soon after Independence, we proceeded on the assumption that markets tend to fail and, therefore, the State should correct the failures. This implied that the government is always benign and serves public purpose. Experience has shown that the issue is not State versus market, or the public verses the private sector. Much of the problem of NPAs and frauds observed in the banking sector is a result of the nature of interface between the State and the markets, the public and the private sector and, above all, between politics and business.

While there may be elements of fraud and criminality, the all-pervasive problem is one of conflict of interest. The ultimate right question to be asked is: Are there enough safeguards against related-party transactions, conflicts of interest in policy-making, regulation and implementation within different wings of public sector as well as between public and private sectors?

The right question now is: What is the nature of relationship between state and market; or public and private sector? What are their relative strengths and weaknesses, going forward?

Let me conclude by wishing Bandhan Bank many happy returns and healthy growth to serve the society, at large.