

Responsive & Responsible PSBs

Banking Reforms Roadmap for a New India



सत्यमेव जयते

राजीव कुमार
सचिव

Rajiv Kumar

Secretary

Tel. : +91-11-23343478

+91-11-23340222

Fax : +91-11-23340027



भारत सरकार
वित्तीय सेवाएँ विभाग
वित्त मंत्रालय
जीवन दीप भवन, तीसरी मंजिल
१०, पार्लियामेन्ट स्ट्रीट,
नई दिल्ली-११०००१
GOVERNMENT OF INDIA
DEPARTMENT OF FINANCIAL SERVICES
MINISTRY OF FINANCE
3rd FLOOR, JEEVAN DEEP BUILDING,
SANSAD MARG, NEW DELHI-110 001
E-mail : secy-fs@nic.in

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Dear PSB Chairmen & CEOs,

PSBs are 70% of the Indian banking system. The criticality of PSBs to the nation's banking landscape therefore needs little emphasis. PSBs have the reach and competence to meet multifarious banking requirements of a variety of customers, especially, underserved sectors and segments. Time and again, PSBs have risen to the occasion to address customer needs, both in normal and difficult times. Public confidence in PSBs has in turn led to higher expectations from them.

2. The massive recapitalization of PSBs was approved by the Government in October 2017 in this context. It is incumbent on PSBs that trust reposed by Government translates into economic returns for the country. Holistic and wide ranging reforms need to therefore take place alongside, so that this capital is effectively utilized towards faster economic growth. This PSB Reforms Agenda – “Ease of Access Service Excellence” (EASE), is based on the recommendations made by PSB Whole Time Directors (WTDs) and senior executives in ‘PSB Manthan’ in November, 2017. It encapsulates a synergistic approach to ensuring prudential and clean lending, better customer service, enhanced credit availability, focus on MSMEs and better governance. EASE would once again prove that the orientation of PSBs to meeting customer needs remains strong.

3. PSBs can and must be benchmarks of excellence. We have a shared commitment to carrying out the time bound Roadmap that we have jointly signed up to. Effective and time bound implementation in all its seriousness will ensure that ‘Brand PSB’ will become a byword for responsive and responsible banking.

Yours sincerely,

(Rajiv Kumar)

To

All PSB Chairmen & CEOs.

Reforms Agenda for Responsive & Responsible PSBs

The following PSB Reforms Agenda has emerged, aimed at EASE – Enhanced Access & Service Excellence based on recommendations on six themes made by Public Sector Banks (PSBs) in Manthan on November 11-12, 2017.

Customer Responsiveness: EASE for customer comfort

Responsible Banking: Financial stability, governance for ensuring outcomes, and EASE for clean & commercially prudent business

Credit Off-take: EASE for the borrower and proactive delivery of credit

PSBs as UdyamiMitra: EASE of financing and bill discounting for MSMEs

Deepening Financial Inclusion & Digitalisation: EASE through near-home banking, microinsurance and digitalisation

Ensuring outcomes – HR: Developing personnel for Brand PSB

Capital infusion is dependent on PSB performance on these reform themes.

Bank Boards would approve bank's plans to implement PSB Reforms Agenda and monitor it in Board meetings quarterly.

Whole Time Directors of PSBs would be assigned theme-wise Reforms Agenda for monitoring and evaluated for their performance in implementing the assigned Reforms Agenda, as part of their Key Responsibility Areas.

Banks' Whole Time Directors reporting to the bank chief executive would also be evaluated on their performance in implementing the Reforms Agenda by bank Boards.

ACTION POINTS FOR BANKING REFORMS

1 CUSTOMER RESPONSIVENESS

EASE FOR CUSTOMER COMFORT

EASE of banking from the
comfort of home

EASE in grievance redressal

EASE for senior citizens and
the differently abled

EASE through forms
simplification

EASE through pleasing
ambience

Introduction of EASE ranking
annually

2 RESPONSIBLE BANKING

FINANCIAL STABILITY, IMPROVED GOVERNANCE, AND EASE FOR CLEAN & PRUDENT BUSINESS

Creation of a Stressed Asset
Management Vertical (SAMV)

Corporate lending through
rigorous due diligence

Tie-up with Agencies for
Specialised Monitoring
(ASMs) for clean & effective
post-sanction follow-up in
loans above Rs. 250 crore

Institute efficient practices
for large consortium loans,
minimum 10% exposure

Strict segregation of pre- and
post-sanction roles &
responsibilities

Ring fence cash flows

Differentiated Banking
Strategy

EASE through transparent
and robust OTS

Furthering Financial Stability

Check aggressive and
imprudent lending

Monetise realisable non-core
assets

Rationalise overseas
operations

Improving Governance

Board-approved strategic
vision and business focus

Boards to evaluate
performance of Banks' Whole
Time Directors

Strengthening and
empowerment of Boards

LEARNING FROM THE PAST,

STRENGTHENING PSBs - BUILDING INDIA

3 CREDIT OFF-TAKE

PROACTIVE DELIVERY OF CREDIT

Improving processes

EASE for the borrower

Proactive reach-out to borrowers

Strategy plans for key
industry-based market segments

4 PSBs AS UDYAMIMITRA FOR MSMEs

EASE OF FINANCING AND BILL REALISATION FOR MSMEs

Online application @Udyamimitra.com

Decision within 15 days

EASE of bill realisation for MSMEs

EASE of financing for MSMEs

Single-point MSME Relationship Officers

Revival Framework for stressed MSMEs

5 DEEPENING FINANCIAL INCLUSION & DIGITALISATION

EASE THROUGH NEAR-HOME BANKING, MICROINSURANCE AND DIGITALISATION

EASE through near-home
banking within 5 Kms

Social security through
microinsurance

EASE through digital
payments

Customer protection
against cyber-frauds

6 ENSURING OUTCOMES - HR

DEVELOPING PERSONNEL FOR BRAND PSB

Reward select top-performers
identified through a Performance
Management System (PMS)

Specialisation through job families

Mandate annual role-based
e-learning

BUILDING THE FUTURE

Customer

AP- 1. EASE for customer comfort:

1. **Banking from home and mobile** to progressively make brick-and-mortar branch visits redundant:
Promote digital banking, such as Internet banking, mobile banking, integrated mobile apps and phone banking for **EASE** of opening accounts and fixed deposits, nomination, sanction of overdraft facility, online loan application, e-payments, return preparation, etc.
 2. **Simplification of forms:**
 - (a) Maximum two pages for KYC, and two pages for account-opening (inclusive of nomination, Form 60/61, and all other services)
 - (b) Online forms with auto-filling of information already held by bank, and likely default entries (*e.g.*, current address same as permanent address)
 3. **Suite of financial services for one-stop access to customers**, including banking-plus services such as insurance and investment:
 - (a) Board-approved plan
 - (b) Implementation, with partnerships and skilling of personnel
 4. **Pleasant ambience of customer service area**, with proper seating, uncluttered surroundings, cleanliness, proper whitewashing and painting, etc.
 5. **Courteous & smartly attired staff:** Bank-approved code of customer interface
 6. **Basic customer amenities :** Customer access to clean toilets and safe drinking water.
 7. **Uniform and attractive signage for customer assistance** in languages as per RBI's instructions
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Responsiveness

AP- 2. EASE in grievance redressal :

8. **System-driven grievance redressal mechanism** with—
 - (a) real-time complaint status tracking by complainant;
 - (b) time-bound auto-escalation, compliant with time limits laid down by RBI;
 - (c) feedback from complainant to check the quality of redressal; and
 - (d) root cause analysis and effective action on common grievances to avoid recurrence

AP- 3. EASE for senior citizens and the differently abled:

9. Doorstep banking
10. Preference in service, or dedicated counters
11. Free cheque-book issuance, without visit
12. Online update of pension life certificate
13. Automatic benefits of senior citizens accounts
14. Visually handicapped may withdraw through authorised person
15. Providing TDS exemption forms proactively

AP- 4. Introduction of EASE Rankings on customer EASE :

16. **Annual EASE Ranking survey** to measure banks' customer-responsiveness, assessed on all **EASE** items, through customer survey and objective measurement
EASE Ranking Index to be to be published annually.
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Responsible

AP-5. Creation of a Stressed Asset Management Vertical (SAMV):

- & 17.** (a) For focussed recovery efforts through a dedicated, specialised and motivated team for enhanced and timely recovery, under a Board-approved policy delineating its scope, roles and responsibilities
- (b) Appropriate staffing, with incentive structure linked directly to benchmarked enhancements in recovery levels
- (c) Migration of identified Stressed Assets and high-value Special Mention Accounts (SMAs) to SAMV

AP-6. Clean corporate lending through rigorous due diligence and appraisal for sanction:

- 18.** (a) Ensure that necessary regulatory clearances/ approvals are in place, and appropriate backward and forward linkages are tied up before disbursement
- (b) Scrutinise group balance-sheet and ring-fencing of cash flows
- (c) Consider non-fund and tail risk embedded in project financing
- (d) Initiate process for use of technology and analytics for comprehensive due diligence across data sources
- (e) Lead banks in consortium to build capacity for techno-economic valuation, and their consortium banks to build requisite capacity to validate/assess such valuation

AP-7. Tie-up with Agencies for Specialised Monitoring (ASMs) for clean and effective post-sanction follow-up, on common engagement basis in case of consortium lending, for :

- 19.** (a) aspects requiring domain expertise (*e.g.*, inspection and stock audit); and
- (b) large credit exposures (say, above Rs. 250 crore) and exposures of a specialised nature.

AP-8. Institute efficient practices for effective coordination in large consortium loans:

- 20.** Observe a minimum threshold for participating in consortium loans (say, 10%)
- 21.** Adopt an SOP for the valuation process in consortium loans to synchronise date, periodicity and methodology of valuation, supported by online mechanism for sharing among consortium members
- 22.** Model SOP for coordination among Joint Lenders' Forum (JLF) members
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Banking

AP-9. Strict segregation of pre- and post-sanction roles & responsibilities & for enhanced accountability :

- 23.** (a) Board-approved policy for strict segregation of roles and assignment of responsibilities for appraisal, monitoring and recovery
(b) Identification, training and placement of staff

AP-10. Differentiated Banking Strategy (DBS) through smaller banks

- & 24.** to leverage their competitive advantage for strong regional and market segment connect, covering Board-approved:
- (a) business plan, including asset swap/sale plan to achieve desired risk weighted asset mix, with limited corporate exposure (about 25% of total risk weighted assets) and initial reduction of corporate exposure share by Mar 2019 to below 40% or by at least 15% from Sep 2017 level;
 - (b) branch network rationalisation plan; and
 - (c) plan for realigning organisational resources (including HR, IT and partnerships).

Illustrative categorisation:

- *National retail banks, &*
- *Regional retail banks*

AP-11. EASE through transparent and robust One-Time Settlement (OTS) mechanism, for timely and better realisation through

- & 25.** an online OTS platform with:
- (a) End-to-end processing, till repayment or recovery in case of non-adherence to OTS; and
 - (b) Automated escalation and monitoring.
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FURTHERING FINANCIAL STABILITY

AP-12. Check aggressive and imprudent lending through proactive, dynamic & systemic risk management :

26. Institute and implement **Risk Appetite Framework** for a structured approach to manage, measure and control risk, with following features:
 - (a) Cover policies, processes, controls and systems for both material and reputational risks
 - (b) Include a risk appetite statement, risk limits, and outline of roles and responsibilities of those overseeing implementation and monitoring
 27. Institute and implement **Risk Based Pricing** for pricing loans, keeping in view risk-adjusted return
 28. **Appointment of Chief Risk Officer with requisite skills**, having direct reporting lines to the MD & CEO / Risk Management Committee of the Board
 29. **Stress-testing to be carried out semi-annually**, as per RBI's Stress Testing Guidelines, for eight quarters, and report of the results to be presented to the Board, with particular attention to:
 - (a) concentration exposures at the borrower, group and sector levels, and
 - (b) contingency plans under the stress-test scenarios.
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AP-13. Monetise realisable value from sale of non-core assets to

- &** strengthen the bank and focus on core business, as per asset-wise, time-bound Board- approved plan for:
30.
 - (a) Exit from all 'strategic equity investment' in unrelated businesses and sale of all real estate not used for bank operations; and
 - (b) Divestment of stake for optimal realisation of value in viable complementary businesses.
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AP-14. Rationalise overseas operations within and across PSBs for cost efficiencies and synergies in overseas markets:

31.
 - (a) Based on competitive strength and viability
 - (b) Draw up Business-Unit-wise Board-approved plan, for time-bound closure/consolidation as per due procedure, to:
 - (i) Close non-viable branches;
 - (ii) Consolidate operations in the same geography, taking into account operations of other PSBs; and
 - (iii) Consolidate equity stake in joint venture having multiple PSB partners.
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ENSURING OUTCOMES – GOVERNANCE

AP-15. Board-approved strategic vision and business focus plan for

- &** five years, consistent with its Risk Appetite Framework and, where applicable,
- 30 Differentiated Banking Strategy
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AP-16. Boards to evaluate performance of Banks' Whole Time

- & Directors**
31. reporting to the bank chief executive on implementation of the Reforms Agenda
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Credit Off-take

AP-17. EASE for the borrower:

32. **Online application facility for home, education, vehicle and other personal loans, with 100% processing on automated basis**, for time-bound decision-making and transparent status-tracking
33. **Digitalise non-retail credit appraisal process** on end-to-end basis
34. **Step up cash-flow financing** substantially
35. **Rationalise decision-making layers:** maximum three layers

AP-18. Proactive reach-out to borrowers:

36. **Dedicated feet-on-street** — as against reliance on branch-based reach-in
37. **Broad-base bank's business-connect:**
 - (i) **Institute credit-plus services** for handholding borrowers for improved access to finance as a result of enhanced bankability of proposals
 - (ii) Reach-out to entrepreneurs, in association with chambers of commerce and industry associations

AP-19. Strategy plans for key industry-based market segments:

38. Board-approved plans for key industry-based market segments:
 - (a) Differentiated products and services
 - (b) Development of industry-wise technical expertise
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PSBs as UdyamiMitra for MSMEs

AP-20. EASE of bill realisation for MSMEs:

- 39. Registration of all banks on TReDS platform for faster bill discounting**
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AP-21. EASE of financing for MSMEs:

- 40. Board-approved policy for enhanced working capital to GST-registered MSMEs, and its roll-out**
- 41. Enable MSME financing through cluster-based financing and FinTech:**
- (a) Substantially step up cluster-based lending
 - (b) Improve due diligence, better risk assessment and faster turnaround through FinTech (financial technology innovation for business transaction)
- 42. Time-bound and automated processing of MSME loan proposals, including—**
- (a) 15-day decision timeframe for proposals on www.udyamimitra.com, and
 - (b) online application facility and automated decision for all micro-enterprise loans
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AP-22. Single-point MSME Relationship Officers:

- 43. Designated single-point MSME Relationship Officers for the top-20 MSME accounts in every MSME-Specialised Branch (total 3,319 branches across PSBs)**
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AP-23. Revival Framework for stressed MSMEs:

- 44. Identification of all SMA-1/2 MSME accounts needing help through the Revival Framework in every MSME-Specialised Branch**
- 45. At least two meetings of the Framework Committee to be held by Mar 2018 to take up all identified cases**
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Deepening Financial Inclusion & Digitalisation

AP-24. EASE through near-home banking:

46. **Banking Outlets within 5 km of every village** as approved by State Level Bankers' Committees
47. **Most branch-based services through Bank Mitras** for branchless banking
48. **Mobile ATM in every under-served district** by the district lead bank, with pre-announced programme of availability to customers at various locations

AP-25. Social security through microinsurance:

49. **Massive expansion in microinsurance coverage** by tagging with MSME, agricultural and other retail loan disbursements to cover borrowing individuals & employees of borrowing entities, under Pradhan Mantri Suraksha Bima Yojana and Pradhan Mantri Jeevan Jyoti Bima Yojana

AP-26. EASE through digital payments:

50. **RuPay debit card issuance to all Pradhan Mantri Jan Dhan Yojana accountholders**
51. **Aadhaar-seed all operative current & savings accounts**, as per Prevention of Money-Laundering Rules
52. **Enable Aadhaar-seeding through OTP** on mobile
53. **Massive expansion in Aadhaar-enabled payment Points of Sale** through BHIM-Aadhaar devices, as per bank-wise target for deployment of 20 lakh devices

AP-27. Customer protection against cyber-frauds:

54. **Ensure credit-back against unauthorised debit in electronic transaction**, within 10 working days, of notification by customer, as per mandated norms
 55. **Real-time alerts for customer protection** through data analytics, process automation and intelligent monitoring
 56. **Free customer-level security updates for apps** and Internet-based utilities
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Developing Personnel for Brand PSB

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- AP-28. Reward select top-performers** identified through a Performance Management System (PMS):
- 57. Performance Management System (PMS)** based policy for rewarding select top-performers, approved by the Board, covering:
- (a) classification of roles as measurable and non-measurable;
 - (b) objective grading framework that distinguishes top performers; and
 - (c) incentive & fast-track promotion for the top performers.
- 58.** Incorporate with PMS, **end-to-end digitised Annual Appraisal Reports** of all staff, covering both filing and assessment, beginning with the performance appraisal for 2018-19
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- AP-29. Specialisation through job families**—Appropriately identify and
- & 59.** optimally allocate personnel to enable:
- (a) identification of roles for each job family;
 - (b) obtaining of options; and
 - (c) optimal allocation of personnel to job families through an objective process
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- AP-30. Mandate annual role-based e-learning programme for all officers,**
- & 60. and a fellowship & training programme for senior executives :**
- (a) Assign weightage in appraisal for e-learning programme
 - (b) Develop e-learning role-based lessons with randomised, variable question bank for evaluation, and lay down minimum number of online lessons to be successfully completed annually
 - (c) Assign weightage for exit evaluation in appraisal for fellowship & training programme
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सत्यमेव जयते

Department of Financial Services
Ministry of Finance
Government of India

Reforms Agenda for PSBs

Recommendations by PSBs' Whole Time Directors and Senior Executives at PSB Manthan have resulted in a six-point action plan on Enhanced Access & Service Excellence or **EASE**, based on the twin touchstones of customer responsiveness and responsible banking. **EASE** delineates the steps necessary for PSBs to improve their performance and ensure financial stability, improved governance, and clean, commercially prudent business practices.

The goals of digitalisation and financial inclusion will be furthered under **EASE** through near-home banking and micro-insurance.

Capital Infusion will be dependent on PSBs performance on reforms and bank Boards will approve and monitor plans aimed at implementing these reforms. Whole Time Directors will be accountable and evaluated on their performance in implementing assigned reforms.

EASE aims to bring about much-needed change to PSBs because a changing India needs a revitalised Banking Sector.

