CEO WATCH

PUBLIC SECTOR BANKS' FUTURE FIVE

Prime Minister Narendra Modi's government says banking reforms, christened 'Indradhanush', are the most important move since bank nationalisation in 1969. Political interference is history, and boards are being professionalised. **Sangita Mehta** and **Shilpy Sinha** profile the people who could make or break the nation's hope

GETTY IMAGES

The Diplomatic Banker

MELWYN REGO

CEO & MD, Bank of India

Previous Assignment DMD, IDBI Bank

Education MBA, Symbiosis Institute of Business Management

Hobby Reading

Whenever IDBI Bank is mentioned, one image comes to mind: the fall of a mighty oak. That may well be the case given its growth and profitability. But when it comes to innovation in raising funds with variety and keeping costs under control, IDBI Bank rose above the rest, thanks to Melwyn Rego, its executive director.

No other bank had utilised the overseas currency borrowing to its advantage the way IDBI Bank did — be it borrowing in Chinese yuan through the Dim Sum bonds, or in Swiss francs.

Rego, a life-time IDBI banker — from its development finance institution status to a full-fledged commercial bank — cut his teeth in the overseas fixed income securities markets as it borrowed from multilateral institutions such as the Asian Development Bank or the World Bank. Rego used that expertise to his advantage after the markets opened up.

What could be a bigger advantage for Rego in his new assignment is his baptism by fire at IDBI – having to clean up the mess of bad loans in the so called 'rehabilitation department.'

Rego, a diplomatic banker, had also headed IDBI Home Finance, which the institution acquired from Tata Housing and later merged with itself.

He stood out even in a 'sarkari' way of life, being the juniormost executive director at IDBI to be promoted as deputy managing director. This made him qualify for the CEO post when the government stipulated that only those with a year's board experience could apply for the post.

Rego, who has been given three years at Bank of India, is an MBA from Symbiosis Institute of Business Management. Those who have worked very closely with him say his challenge will be to take quick decisions and clean the books at Bank of India, which is saddled with stressed assets at 6.8% of total loans. What could be a handicap for Rego is his lack of experience at the teller counter at a branch, a must for any grassroots banker.

Accidental Banker Fought the Odds

KISHORE KHARAT

CEO & MD, IDBI Bank

Previous Assignment Executive Director, Union Bank of India

Education MBA, ICFAI

Hobby Reading books on human behaviour and interpersonal skills

Sacrifices and rags-to-riches stories are usually associated with entrepreneurs. If there is one in the state-dominated banking industry, it is that of Kishore Kharat.

He is an accidental banker. The boy who grew up in Satara aspired to be a bureaucrat — back then, appearing for Indian Administrative Service exams was a fad among school children. But Kharat was not among the children fortunate enough to pursue a career of choice; he had to pick banking reluctantly due to his family's economic condition.

"I wanted to be an IAS or IPS officer when I was young, although now I'm happy doing banking," says Kharat, who is headed to IDBI Bank, which is yet to come to grips with nearly a decade since its conversion into a bank from a development finance institution.

Kharat rose through the ranks after joining Bank of Baroda as a clerk even before he completed his graduation -- such was his compulsion.

But Kharat was not in the least deterred by adverse circumstances. On the contrary, he worked hard to overcome them. Not content with a bank job, Kharat did not want to give up on his career aspirations. He enrolled in an evening college in Satara to complete his graduation and also managed to secure an academic qualification in law as well. Even as he delivered the goods in his banking job, he completed his masters in management from ICFAI, Hyderabad.

While the Satara boy has grown to the topmost position that anyone who started a career as a clerk in a public sector bank clerk could aspire for, the sweetest memories for him lie in the land of sugarcane discovered by explorer Chirstopher Columbus and made more famous by cricketer Brian Lara.

Kharat ventured out to set up the subsidiary of Bank of Baroda (Trinidad & Tabago) in the Atlantic island. That was when life acquired a new meaning for him.

"It is during this posting that I realised the benefits of work-life balance," says Kharat. "I learnt how to live and enjoy life. In fact, during the tenure I never took ill and never took a single tablet. Now I don't take work home. I prefer to sit in office and finish it." He spent five years up to 2010 in the island nation.

Go-getter who Wears Many Hats

USHA ANANTHASUBRAMANIAN

CEO & MD, Punjab National Bank

Previous Assignment CEO & MD, Bharatiya Mahila Bank

Education Masters in Statistics from the University of Madras, Masters in Ancient Indian Culture, University of Mumbai

Hobby Playing the veena, numismatics, philately, gardening

If at all a politician and a banker share a similarity, it is between external affairs minister Sushma Swaraj and Usha Ananthasubramanian, the chief executive at Punjab National Bank — the big, round *bindi*. But the similarity ends there.

The avid gardener is not a great orator like the minister, but is equally effective in getting what she wants in her professional as well as personal life. Everyone knew Bharatiya Mahila Bank (BMB) could be a non-starter and was headed nowhere. While many were hesitant to take up the job, Anathasubramanian jumped at the opportunity, reflecting her eagerness to take up any challenge.

She is not just another career banker who has sacrificed everything in life to climb to the top, but has managed to keep all her interests alive, adding to them and even nurturing them.

"I keep experimenting in gardening, sometimes by crossing a variety of plants," she says.

For Ananthasubramanian, it is a kind of homecoming at PNB. She had been executive director at the same bank for two years before moving to BMB.

Her biggest challenge could be managing staff, but she could draw lessons from her Bank of Baroda days when she worked with human resources expert Anil Khandelwal.

Ananthasubramanian, who is learning Spanish and German, began her career with Bank of Baroda as probationary officer and is experienced in working with some tough taskmasters such as former Reserve Bank of India deputy governor KC Chakrabarti.

The banker, who listens to Carnatic music to destress, also has a pet to walk around — Apple, a name that should tell her colleagues what is in store.

Illustrations: VARANI SAHU

Scaling Every Barrier

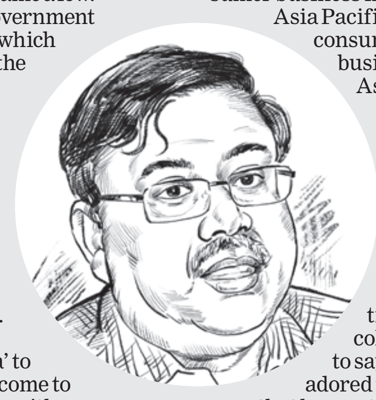
PS JAYAKUMAR

CEO, Bank of Baroda

Previous Assignment MD, Value and Budget Housing Corp

Education MBA, XLRI

Hobby Carnatic Music



Citibank in the past few years may have earned a reputation for slackness in compliance leading to penalties by various regulators across the world, but it has produced some extraordinary bankers too — Aditya Puri of HDFC Bank and Piyush Gupta of DBS Holdings of Singapore, to name a few.

The Indian government and regulator, which have looked at the private sector with suspicion for long, will hand over the turnaround of the second biggest state-run bank by assets to a former Citibanker — PS Jayakumar.

Jayakumar, known as 'Jaya' to friends — will come to Bank of Baroda with a reputation of knowing the Indian markets, especially the retail part, like the back of his hand.

Just like the country, every institution has its bureaucracy. "Within the framework of regulations, he is known to work around (blocks)," said a former colleague.

Banks were subject to many meaningless rules; more so, international banks. One such was related to branch expansion. When Citi could not expand due to regulations, he conceptualised Citi Financial Consumer Finance, a non-banking finance company, which became a tool for its peers.

Jayakumar could not be reached for comment.

He was country head for consumer business in India and the Asia Pacific and head, consumer lending business in the Asia Pacific.

In his 24 years in Citibank, Jayakumar contributed to the development of its retail banking initiatives. His former colleagues go on to say that he was adored to the extent that he was the good guy in Ravi Subramanian's book, *If God was A Banker*, a fictional account of two bankers — one crooked and the other good. "Even before you say his name, he will throw 20 new ideas at you," said Subramanian, a former colleague.

Few dispute his knowledge and grasp of the industry, but he may have to watch his steps when it comes to his Citibank aggression and impatience with colleagues.

Work Round the Clock

RAKESH SHARMA

CEO & MD, Canara Bank

Previous Assignment CEO & MD, Lakshmi Vilas Bank

Education MA in Economics

Hobby Reading books on finance

If you want to know what fate means, ask Rakesh Sharma, the newest chief executive of Canara Bank. Sharma is ending up with what he renounced.

It may look like Canara Bank is getting private talent, but in reality, one public sector bank talent is going to head another state-run bank with a brief private sector stint as cherry on the cake.

Sharma, the 57-year-old vegetarian, is a State Bank of India veteran, having served it in many capacities from a probationary officer to general manager with a variety of assignments that very few could claim.

In a way, he is a contrast to Rego, who heads the Bank of India.

Credit as well as international experience dot Sharma's curriculum vitae. His experience at Hyderabad in his younger days where he had handled dozens of mid-level companies could come in handy in his latest assignment where he has to deal with many issues including recovery from Deccan Chronicle Holdings, an account that had to face a forensic audit.

He has also been at the nerve centre of Indian politics — New Delhi — as general manger of SBI. Unlike many bankers, he is also experienced with international experience as an officer in the conservative Tokyo where banks function more like Indian state-run banks rather than Wall Street's aggressive lenders.

In fact, Sharma had given up on further growth in the state-run banking sector when he threw up his job at SBI to take up the role of CEO at Lakshmi Vilas Bank (LVB), whose earnings, or asset size could get rounded off at SBI.

Having gone through the SBI grind, Sharma's foremost agenda at LVB was to put a process in place. His obsession was to keep looking at accounts that missed payments on a daily basis, a virtue that may come in handy in his new assignment.

Staff at Canara Bank say they are lucky. "We are getting an SBI official — they are among the best in the industry," said a GM from the South-based bank.

He may have the background of a state-run banker, but the workaholic in him makes him behave like a private banker. Ask him on how he spends his free time, or how he takes his stress off, and he says, "I enjoy working. Where is the time to relax?"

Footnote for wilful defaulters: Sharma has lent and recovered money in Patna.

Bad Banks: NPA Issue Needs a Govt-Sponsored Distressed Asset Fund

Guest Column

DEEP NARAYAN MUKHERJEE

Current set-up may not be adequate: India's track record of bad loan recovery does not inspire much confidence. In 1997, when the gross NPA touched 15.4% (source: World Bank), it took nine years for the NPA rate to fall below 5%. The system responded with laws such as Sarfaesi Act and creation of Asset Reconstruction Companies (ARCs). Arguably, these measures have shown less-than-anticipated success in recovery of bad loans from large corporates. Additionally, the current crop of ARCs are unlikely to have the balance sheet strength to resolve stressed assets (NPA plus restructured assets) which are well over ₹6,50,000 crore.

Government should take the NPA problem head-on: By 2019, India Ratings estimates that PSU banks may require equity infusion from the government to the tune of ₹2,40,000 crore for Basel III requirements. Current NPA levels may increase the equity infusion bill significantly.

The government is possibly exploring two approaches to solve the issue, but both these may not be the most feasible or optimal. One approach is to recapitalise banks to the extent required to cover distressed assets. The second is a passive approach where the government will try to revive the economy with enabling policy and hope the economic recovery would resolve the NPA problem.

Some may argue that the current actions are more loaded towards the passive approach, which may yield results over four to six years; however, growth in the short-to-medium term must be foregone.

The government may do well to look for some alternate options to resolve the NPA issue without a huge immediate cash outflow. One of the possible solutions, if not the panacea may be the 'bad bank'.

Learning from 'bad bank' experiences elsewhere: A 'bad bank' is an entity where the bad loans of a normal bank are parked. This allows the bank to continue with its usual functions without getting bogged down in terms of finance, resources or management bandwidth. Mellon Bank in 1988 was the first to create a bad bank to park bad loans. However, given the current situation, India may consider creating a quasi-sovereign financial entity which will function like a bad bank. Such models have been used in the past by countries such as Japan, Sweden, the UK and Slovenia. The success rate has been mixed but the learnings are valuable. India may consider creating a 'bad bank' on the lines of a distressed asset fund.

Bad loans may be 'purchased' by SDAF at face value. SDAF will pay banks by issuing long-dated bonds at a near-zero interest rate

It's time for an Indian Sovereign Distressed Asset Fund (SDAF): This SDAF may require an act of Parliament, which will give it sweeping powers to take over management of corporates or liquidate their assets. Ideally, the claims of existing promoters on the company's assets should lapse when the corporate's debt is sold to SDAF. In the absence of an operational bankruptcy code, such exceptional powers may be essential.

The bad loans may be 'purchased' by SDAF from banks at face value. The SDAF will pay banks by issuing them long-dated bonds (10-year-plus) at a near-zero interest rate. This will reduce immediate funding requirements from the government. However, SDAF bonds will ensure the bank does not have to write off assets, preventing the balance sheet equity from being damaged.

The SDAF will require funds to turn around some of these distressed corporates. It can sell its units with long maturity to institutional investors such as banks and multilateral agencies. The units sold may enjoy capital protection attributable to a government guarantee.

Operationally, SDAF may deal with the loans in three ways: Liquidate the company; part-sell viable assets; revive the corporate.

Corporates, whose market capitalisation is a minuscule fraction of their debt or may take 8-10 years to repay their current debt, may be considered for liquidation.

Corporates in infrastructure may have viable projects which may be immediately sold off, or the SDAF may fund the completion of the project before selling them. Thirdly ,some corporates may create tremendous value if the management is changed and SDAF infuses fresh capital. When these turnaround stories will be sold, SDAF may make handsome gains.

Since the SDAF will have a portfolio of bad assets, the loss incurred on the debt's face value during liquidation may be recovered by the sale of the 'turnaround' companies. But even otherwise, if a nominal loss is incurred by SDAF after 10 years, it would be of much lesser value than the option of currently infusing equity to repair the state-owned bank's balance sheet. Additionally, the systemic benefit of faster economic recovery that may be enabled by removing banks' NPA burden will be immense.

(The writer is senior director, corporate ratings, India Ratings & Research. Views are personal)