

## Profit over Public Interest

*C.P. Chandrasekhar*

The Union government seems set to launch a new round of banking policy liberalisation. Among the pointers is a recent statement made by the [Finance Minister](#) that “India needs a lot of *big*, world-class banks” and that a strategy to ensure that is being discussed.

This suggestion is, however, not benign. To start with, the conflation of size and excellence in performance presumes an automatic link between the two that is not warranted by evidence. Across the world there are big and small banks, and there are well and poorly performing banks in each of these categories. Moreover, the world’s biggest banks have been tainted by their actions and performance on multiple occasions, not least before the global financial crisis of 2008, precipitated by their deviant and excessively speculative behaviour. To reduce the collateral damage from their failure, they had to be saved by governments and [central banks](#). The task at hand is not to scale up banks but prevent them from becoming “too big to fail”. Conflating excellence with “world class” in terms of size is, therefore, deeply problematic.

In any case the evidence that banking is a sector that, like some manufacturing industries, is characterised by substantial “economies of scale” making being bigger better has no empirical or conceptual backing. In fact, the bigness of banks in many high-income economies reflects the fact that deregulation in the 1980s allowed banks to diversify into a host of “new” high-yield and high-risk areas that made them prone to failure.

### Consolidation of public sector banks

While the exact modes through which the strategy of big bank creation in India is likely to unfold remains unclear, one repeatedly mentioned mechanism is a consolidation through merger of existing banks, especially banks in the public sector. This is not a new effort at “reform”. In 2017, all the associate banks of the SBI were merged with it. And then, in 2018-20, a set of 13 public sector banks was reduced to a set of 5 through consolidation. After this event, the number of public sector banks came down from 27 before 2017 to 12, making their average size bigger.

But that does not help the Finance Minister’s cause. India has only one bank in the world’s top 50 at a low rank of 43. The total assets of India’s scheduled commercial banks are estimated at around \$3.3 trillion, and that of the 12 public sector banks at \$1.95 trillion. That compares with \$6.7 trillion of the Industrial and Commercial Bank of China alone.

While it is not clear what the recent consolidation efforts did for efficiency, they did reduce the number of branches of the merged banks and cut their staff and salary bills. Besides hurting workers and employment, this is having some adverse collateral effects. The reach of public sector banks and inclusivity in credit provision across sectors and the population are being eroded. After the nationalisation of private banks in 1969, the government refrained from consolidating them because the large number of banks helped address the principal weaknesses of Indian banking: its limited reach among a vast population that needed financial services and its skewed credit distribution that had long excluded agriculture and small-scale enterprises.

To ensure its reach and make the system more inclusive, the best policy in a country as large as India was to have a large number of banks, each of which focussed on a few regions. Bank branch expansion, especially to rural areas, of each of these banks was seen as imperative and was pushed as part of the policy. The results in terms of banking reach and inclusion in credit provision (ensured especially through the priority sector lending policy) were dramatic.

#### Increased foreign participation

But consolidation is not the only intent of the new push to liberalise banking policy. A second parallel discussion has been on opening doors further to foreign direct investment (FDI) in banking. In the prevailing policy, there are separate limits for private and public sector banks for equity holding by a single foreign investor (15 per cent for both) and for aggregate foreign holding, which is set at 20 per cent for public sector banks and 74 per cent for private commercial banks. In addition, under the prevailing banking policy, voting rights for a single shareholder are capped at 26 per cent in private banks and at 10 per cent in public sector banks. Late in October, Reuters reported that the government was considering hiking the 20 per cent ceiling on foreign investment in public sector banks to 49 per cent.

There have already been instances where the single foreign investor shareholding cap has been relaxed, as in the case of the CSB Bank in which Fairfax Holdings was allowed to acquire a 51 per cent stake (when it was still Catholic Syrian Bank) and, more recently, when Sumitomo Mitsui Banking Corporation was allowed to acquire a 24.99 per cent stake in Yes Bank. The government is reportedly contemplating a similar move for public sector banks, on the grounds that it would help increase their capital base and make them world-scale in terms of size. That could well be accompanied by a relaxation of the cap on single shareholder voting rights.

This is a cause for concern. The reputation of global players and private equity investors expressing interest in acquiring stakes in Indian banking is by no means favourable. International experience shows that characterising them as models of good management practices does not hold. The push for banking liberalisation is possibly aimed at conveying an impression that India is opening up its economy even more, in the hope that an FDI- and export-led economic boom would come its way. What is being ignored is that liberalisation since 1991 has not delivered the promised export benefits. The outcome of banking liberalisation would only be a further emphasis on profitability, greater exclusion, and a tendency to adopt speculative strategies in search of profit that could render India's banking sector more fragile. That could be the cost of a poor imitation of "world-class" models.

**\*This article was originally published in the Frontline on November 24, 2025.**