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…As tremors rock banking sector

By K Jayshankar

Barack Obama has had enough. He had to act, given the widespread condemnation of the banking industry's excesses. Even if bankers' memories are short (does anyone in the industry remember that they were bailed out just over a year ago?), public memory is not. So, when Christmas came, the bankers were back to their old habits, getting ready to dish out handsome bonuses to themselves!

The question may well be asked, 'Don't they deserve it? After all, the poor things had a rough period in 2008 and many had seen salaries drop. And, when the firm has done well (on the face of it, at least), surely they deserve to pat themselves on the back and should get a bit extra for all the pain they went through in the recent past! Well, so goes the justification, when JP Morgan Chase, Goldman Sachs, Morgan Stanley and others, declared billion-dollar profits and substantial bonuses to their senior executives.

That was enough to get citizens baying again. And, this time Obama had to respond with a fierce attack on what he called the 'massive profits and obscene bonuses' in the banking sector. Consequently, with a cry of, 'We want our money back' came his announcement of the Financial Crisis Responsibility Fee. This is a fee on approximately 50 of the largest financial firms in the United States, with the aim to collect about $90 billion over 10 years. The government's intention is to recover losses suffered by taxpayers from the financial system bailout. That is not all, Thursday saw the next step: a new proposal that limits the size and scope of risk-taking activities of the big banks. Obama's stated objective is to prevent a relapse to the bad times when the financial institutions had run amok and reached a situation which Ben Bernanke, chairman of the Federal Reserve, characterised as "too big to fail is one of the biggest problems we face in this country." The federal chairman is himself under fire with heavy opposition to his re-nomination to the post, but the avaricious actions of the financial sector clearly indicate that the spirit of Gordon Gecko and the 'greed is good' philosophy is very much alive.

Is this the same in other parts of the globe? Bankers have always been a class apart when it comes to remuneration. In the UK too, Gordon Brown - perhaps, with an eye to the coming polls - has been making strong statements as in the past when he called for banks to remember that they are the "servants of the economy and society and never its master."

The case in Asia has been different. Given the nature of the Chinese state, inevitably, banking in China is completely in the hands of the State despite all the postures of autonomy. The People's Bank of China (PBOC), the country's Central Bank, has control over the state's monetary policies. The other key players are the 'big four', the Bank of China (BOC), the China Construction Bank (CCB), the Agricultural Bank of China (ABC), and the Industrial and Commercial Bank of China (ICBC), all state-owned. While various estimates exist of the non-performing loans in the system, ultimately the government maintains very tight control, in the face of calls for reforms in the sector. The cautious approach to allowing foreign banks a role in the economy has been also due to the view that the ailments that foreign banks suffer from should not get transmitted to the local market, and the suspicion that any sudden withdrawal by them from the Chinese market, however improbable in today's times, should not cause volatility or disruption.

The banking sector in India has been on stronger ground, with the oldest and largest bank being the State Bank of India which originated in 1806. The Reserve Bank of India (RBI) is the nation's Central Bank, and has regulated monetary policy well in the midst of global market turmoil. Like in all other matters, the liberalisation process has created a sea change in the banking sector too in India. The new private banks - using technology as a primary lever - have been aggressively wooing customers and the plethora of choice has been nothing but good news for customers, as it compelled staid old nationalised banks to get their act together again. And, the news is that they have done so, handsomely in many cases. Foreign banks have always existed but with severe constraints on their growth - but the liberalisation process has been a chance for them to play a bigger role now.

Banks have been instruments of social change in India, and with the strong guidance of the state, rural banking has been a focus area given the need to link the rural economy to the urban and modern sectors. While Western experts have been hyper-critical about the restrictions by the state preventing a free run for the banking industry, the events of the last two years have been ample proof that prudent action is essential for social development, particularly in a developing economy.

The recent steps by the Central Bank of Nigeria (CBN) to clean up the banking sector are to be welcomed in this light. Banks are vital instruments of national development, and if the regulators fall asleep at the wheel - be it in the USA, Nigeria or any other nation - it does not augur well for the common citizen who has been the victim of the recent economic disaster.

Whither Western Banking Industry? Will the latest round of actions signal a semi-nationalisation as some alarmists are claiming? Truth be told, banking executives brought stringent action upon themselves with their display of lack of social consciousness and unadulterated quest for instant rewards. So stay tuned for more drastic announcements from the political masters who seek to appease public sentiment.

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