Discussion of: "Are more productive banks always better?"

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Comments by

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Paraphrased comments!

- Topic of the paper highly important, especially given large state-ownership of banks in India.
- Need a broader set of metrics to assess bank productivity & efficiency.
- A bank can be very productive at raising deposits – e.g., by offering much higher than prevailing market rates – but its elevated risks may not be visible in the standard efficiency assessments.
- Hence, growth in productivity should be best assessed against the changes in stability indicators (CAR, leverage, growth of RWAs, liquidity, maturity mismatches, etc).

Indian banking: a very special case

- Complications due to government ownership: government guarantees, directing SOEs to keep funds with state-owned banks, regulatory forbearance.

- Banks’ business model is an important determinant of productivity: e.g. retail and deposit-dependent, etc.

- Need a broader set of metrics to assess bank productivity & efficiency.

Who are the stakeholders?

- Discussion on the beneficiaries of productivity gains not entirely convincing: depositors, borrowers, employees, shareholders.

- Highly productive AND sustainably growing bank would ultimately translate the gains into the ROE figure – for which shareholders of a for-profit institution are key beneficiaries.

- Not sure it’s fair to say that some of the productivity gains went to the defaulting borrowers.

Concluding thoughts

- Banks in India did not become more productive during the observed time period – close to two decades!

- All PSBs were recapitalized, irrespective of their long-term efficiency levels, which raises questions about viability of deployment of some of the taxpayers' funds through recapitalization

- Are more productive banks always better? Yes! Of course, productive banks are always better! But, so are safer banks, and more sustainably growing banks!

Thank You

Minor comments

- It would be interesting to establish if pursuit of productivity and efficiency is now a clear priority/KPI for the PSBs.
- Have the authors considered the GOI's explicit/implicit guarantees for deposits (which private banks arguably didn't enjoy) as a strong driver for growing PSB productivity?
- Does this mean banks can be considered more efficient in raising deposits than intermediating them?
- Inclusion of measurements of output gaps, RWAs, asset bubbles etc. is important.
- Important to consider bank business models in the interpretation of some results. Corporate or wholesale banks can be considered more productive given the average size of loans is higher than retail/SME banks