AIBEA's Banking News

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Govt banks on big bang mergers as GDP tanks

Our Bureau New Delhi | August 30, 2019

Finance Minister Nirmala Sitharaman and Finance Secretary Rajiv Kumar addressing the media in New Delhi on Friday

To create a set of strong public sector banks, the government today announced a mega merger plan that amalgamates 10 lenders into four combinations.

The announcement by Finance Minister Nirmala Sithraman, in second of her promised three-dose economic booster, came on a day GDP growth hit a six-year low.

Post today's mega merger, India will have 12 public sector banks against 27 two years ago. Even as it announced the amalgamation, the government hastened to assure the over three lakh officers and employees of these banks that there would be no job loss.

In the first set of consolidation, Oriental Bank of Commerce and United Bank will be amalgamated with Punjab National Bank. This will form the second largest public sector bank in terms of business and branches.

In the second, Syndicate Bank will amalgamate with Canara Bank to form the fourth largest bank in terms of business and the third largest in terms of branch network.

Andhra Bank and Corporation Bank will join Union Bank of India and the new entity will be the fifth largest in terms of business and fourth largest in terms of branches.

Finally, Allahabad Bank will become a part of Indian Bank, forming the seventh largest combine in terms of business.

Terming this move as 'Building NextGen Banks,' Nirmala Sitharaman told a press conference that from this consolidation will emerge big banks with enhanced capacity, strong national presence and global reach.

Also, there will be operational efficiency gains that will reduce their cost of lending. This will enhance their risk appetite. The thrust will be on NextGen technologies for banking while customers will get wider offerings.

Finance Secretary Rajiv Kumar, who is also in-charge of the Department of Financial Services, said there had been no retrenchments in past consolidations, including that of the State Bank of India and its subsidiaries. He said the service conditions of employees had improved post-mergers. "The employees will only benefit," he said.

NextGen PSBs

Anchor bank	*Amalgamating bank(s)*	*Business size* (₹ lakh crore)*	*PSB rank by size*
Punjab National Bank	Oriental Bank of Commerce United Bank of India	17.94	2nd largest
Canara Bank	Syndicate Bank	15.20	4th largest
Union Bank of India	Andhra Bank Corporation Bank	14.59	5th largest
Indian Bank	Allahabad Bank	8.08	7th largest
SBI	Amalgamated earlier	52.05	The largest
Bank of Baroda	Amalgamated earlier	16.13	3rd largest

To strengthen national presence

Bank	*Business size* (₹ lakh crore)*
Bank of India	9.03
Central Bank of India	4.68

To strengthen regional focus

Indian Overseas Bank	3.75
UCO Bank	3.17
Bank of Maharashtra	2.34
Punjab and Sind Bank	1.71

*March 2019 financials

Source: Finance Minister's presentation

He cited the benefit of scale and synergy for the mergers and said there would be no disruption in service.

Asked if there are more amalgamations/mergers ahead, Kumar said, “As of now, the roadmap is final and 12 is the final number.”

While he did not specify the date from when the scheme of amalgamation would become effective, Rajiv Kumar said the boards of the banks would take a decision on the scheme. Once they give their recommendation, the government will move the RBI for approvals. Since all the banks are listed on stock exchanges, approval from shareholders will also be sought. After all these processes are over, the record date will be decided.

In the case of the amalgamation of Bank of Baroda, Vijaya Bank and Dena Bank, it took almost six months for the new entity to come into existence. Their merger decision was announced in September 2018 and the combined entity came into being from April 1 this year. The government expects a similar timeline for its latest moves, too. However, staff integration could take some more time.

Governance reforms

To make the management accountable to the directors, the board committee of nationalised banks will assess the performance of General Managers and above, including Managing Directors. Also, the size of the board committees can be reduced or rationalised. There will be longer term for the directors.

To make control easier post-consolidation, the boards will be allowed to introduce the post of CGMs (Chief General Managers).

A Chief Risk Officer is to be appointed from the market at market-linked salaries to attract the best talent. To enable succession planning, the boards will decide on a system of Individual Development Plan for all senior executive positions. Another significant move is that only officers with at least two years of service left will be appointed to the post of General Manager and above.

The loan sanctioning authority of the board management committee will be doubled to give focussed attention to higher loan value proposals.

PSBs Closure: Centre taken 'wrong decision' at 'wrong time' : AIBEA

Hyderabad, Aug 31 (UNI) UNITED NEWS OF INDIA

Terming the 'big bang' announcement by Finance Minister Nirmala Sitharaman that 10 Public Sector Banks (PSBs) be merged into four Banks, All India Bank Employees' Association (AIBEA) said it is a 'wrong decision' at a 'wrong time' and ill-conceived and ill-timed. The merger of 10 PSBs (PNB, Canara Bank, Union Bank of India, Indian Bank, United Bank of India, Allahabad Bank, Syndicate Bank, Corporation Bank, Oriental Bank of Commerce and Andhra Bank) needs a review, AIBEA General Secretary CH Venkatachalam told UNI.

He said 'the meaning is that 6 Banks will now get closed. Government may call it a merger but in reality it is ''cold-blooded'' murder of 6 Banks. Because, after merger, these 6 Banks which have been built up over the years, will disappear from the banking scenario', Mr Venkatachalam said.

Calling upon the Bank employees under the banner of AIEBA to oppose the proposed closure of these 6 Banks, the top union leader said, ''we shall shortly launch agitations and strikes.''

Mr Venkatachalam, meanwhile, in a release said, Banks were nationalised in 1969 with a very clear social and economic objective of broad-basing the economy and its development.

In the last 50 years, the Nationalised Banks have made a phenomenal contribution in building up a strong economy with a visible social orientation. About 8000 Branches have become 90,000 bank branches today, out of which 40,000 branches in located in rural and semi-urban areas which were earlier neglected. Credit to priority sector has boosted our economy resulting in achievements like green revolution and white revolution, industrial progress, job generation, rural development, etc.

He said, in 2008 when the entire globe was facing financial turmoil and banking tsunami, Indian banking system was safe because of our public sector banks.

The AIBEA General Secretary said the Government talks of prosperity for all but by closing down these 6 Banks, 6 main arteries of the banking system are being cut off. The victim Banks ---Allahabad Bank, Andhra Bank, Corporation Bank, Syndicate Bank, United Bank of India and Oriental Bank of Commerce are very good Banks and have catered to the economic development in the respective geographic areas in a big way. Suddenly deciding to close these Banks is inappropriate and unwarranted, he added.

'The country is facing serious economic slowdown and downturn. Banks with their huge resources at their command can play a decisive role to revive the economy. In fact, only last week, our FM has assigned important jobs for our Bank in boosting the economy. The decision to merge and close Banks is a total diversion from these tasks,' he said.

Merger is no panacea for problems faced by Banks:

Mr Venakatachalam said, Bank themselves face problems due to huge pile of bad loans. While the Public Sector Banks made a total gross profit of Rs. 150,000 crore for the year ended 31-3-2019, because of total provisions towards bad loans, etc. amounting to Rs. 2,16,000 crore, the Banks ended in a net loss of Rs. 66,000 crore. Can anyone believe that merger of Banks will result in recovery of the huge corporate bad loans? Rather, as we have observed after merger in SBI, bad loans in SBI has gone up. Same risk is facing these Banks now, he pointed out.

A Bank which could not detect Nirav Modi fraud for many years, will it be more effective, if it become still bigger? In fact Banks, if they become too big, cannot monitor their business effectively. For example, PNB, could not realise that Nirav Modi was cheating their Bank for many years. If Banks will become further big, it will become more difficult to monitor bad loans and frauds when frauds are already on the increase.

Big Banks are not automatically strong Banks:

Too big to fail has been thoroughly proved wrong when in 2008, many big banks all over the world collapsed like a pack of cards. Big bank means big risk, because the big bank can give big loans and take big risks and ruin the bank. What India needs is strong and people-oriented Banks and not necessarily big banks, Mr Venkatchalam maintained.

Everyone knows that in India, banking density is much low compared to many countries of the world. Thousands of villages are still unbanked. Our Banks need expansion and not amalgamation. There is a huge space for banks to expand and reach the people. When we need more branches to be opened, merger of banks will result in closure of large number of branches.

We have seen after merger in SBI that 7000 branches were closed down. In this proposed merger, the closure of branches will be much more. It will be most unwise to reduce the branches in the country.

Mr Venkatachalam said there is another side effect of merger and making our Banks bigger. Big Banks will tend to cater to big corporate customer and would tend to ignore the common man. This will defeat the social orientation and objectives of nationalised Banks.

He said Mergers will surely end in closure of Branches. Closure of branches would mean more number of customer going to lesser number of branches and banking services would be severely affected. Customer population per bank branch will increase and affect efficient customer service, he added.

Mr Venkatachalam said when unemployment is a serious problem of the youth, Banks have been providing employment to thousands of educated youth every year. If Banks are merged and branches are closed, intake of staff will come down and hence employment opportunities will be seriously affected.

Was the exclusion of four banks a political gameplan?

K. Ram Kumar Mumbai | August 30, 2019

Political considerations could possibly have been at play in the case of four out of six public sector banks that have been excluded from the mega merger announced by the government on Friday.

For example, with Maharashtra Assembly elections scheduled to take place in October, Bank of Maharashtra (BoM) may have been left out of the scheme of things vis-a-vis amalgamation.

To escape backlash

A merger announcement involving BoM, which is the convener of the State-Level Bankers' Committee (SLBC), at this stage could have given the Opposition parties a stick to beat the ruling party with during election campaign. SLBC is a consultative and co-ordination body of all financial institutions operating in each state.

With two Kolkata-headquartered public sector banks (PSBs) – Allahabad Bank and United Bank of India – set to be merged with other larger banks, the government would have felt the need to ensure that at least one PSB (UCO Bank) continues to be headquartered in India's largest city in the East, which is the hotbed of trade union activities. Moreover, this decision comes in the backdrop of the BJP trying hard to make inroads into the State.

Allahabad Bank and United Bank of India are proposed to be merged with Chennai-headquartered Indian Bank and Delhi-headquartered Punjab National Bank, respectively.

Sources reasoned that Delhi-headquartered Punjab & Sind Bank could have been left out of the mega PSB merger as the BJP did not want to disturb its political equation with ally Shiromani Akali Dal and rub the powerful Shiromani Gurudwara Prabhandak Committee, which controls all historical Gurudwaras in the country, the wrong way.

Chennai-headquartered Indian Overseas Bank (IOB) may have been kept out of the mega PSB merger as it is not only weighed down by huge bad loans but also because there could have been adverse reaction from local political parties in Tamil Nadu.

Two large PSBs – Bank of India and Central Bank of India – have not been included in the latest round of consolidation, probably because they are reeling under huge bad loans.

Mega PSU bank mergers come with mammoth issues

Radhika Merwin BL Research Bureau August 30, 2019

After the merger of SBI with its five associate banks two years ago and Bank of Baroda with Dena Bank and Vijaya Bank last year, consolidation among other PSBs was long-awaited. The Centre's move to lay down a concrete roadmap for consolidation has no doubt ended the uncertainty over the matter.

But the Centre, once again being the matchmaker (rather than the bank boards), has set off one of those shotgun weddings that has been brokered in the past, triggered by the weakening state of small PSBs and frugal finances of the Central government, rather than by complementarities, growth potential or cost efficiency. What else could explain the merger of say PNB with Oriental Bank of Commerce and United Bank or the other adhoc matches?

Each set of banks proposed to be merged are riddled with challenges. It is also unclear as to who will take charge of seeing such mammoth entities through the integration process, given that many of bank chiefs' terms are due to expire over the next few months.

Importantly, minority shareholders are likely to face the brunt of these mergers as was the case with BoB or SBI.

Past mergers sketchy

From what was gathered from the FM's press conference, cost savings from network overlaps, ability to scale up business manifold and banks operating under the same core banking system (CBS) appears to have been the rationale for bunching up few banks with others.

The pitch has a familiar ring to it. The Centre had put out the very same reasons for the merger of BoB with Vijaya and Dena or SBI with its associate banks. The existing state of affairs at each of these large banks suggest the weak links in the Centre's approach to the consolidation theme.

SBI's asset quality woes that got accentuated with the merger of its associate banks two years ago are yet to ease. In the latest June quarter, SBI added ☐16,212 crore to its already large bad loan book of over ☐1.6 lakh crore. The first quarterly results (June 2019 quarter) of BoB after its merger with Vijaya and Dena Bank revealed tell-tale signs of stress on profitability and asset quality, a fallout of merging with a weaker and under-capitalised bank (Dena).

The Centre's argument that the large institutions created by the merger will help ramp up lending also does not hold water. BoB saw a modest 6-odd per cent in the June quarter, while SBI's 12 per cent growth for its size and reach is disappointing.

The proposed mergers can end up in a worse situation, given their much weaker balance sheets and lack of strong leader at the helm to steer the integration process.

No strong link

Let us start with the PNB, OBC and United Bank merger. While the merger would create the second largest PSB in terms of size, thanks to PNB's large balance sheet, there isn't one bank in the basket that is strong enough to carry the merger through.

Fraud-hit PNB is already saddled with weak core income and capital ratio. The bank's GNPA is a high 16.5 per cent as of June 2019. Oriental Bank and United Bank have bad loans of about 13-16 per cent. The amalgamated entity will have CET 1 ratio of 7.5 per cent, just above the regulatory requirement of 7.375 per cent. It is little surprising then why the Centre decided to infuse the maximum capital into this entity (☐16,000 crore). Given the weak finances of these banks, it is likely that the Centre will have to continue to support them going forward too.

BoB itself has been given a notable ☐7,000 crore of capital – the bank's Tier 1 capital which stood at 10-11 per cent in recent quarters fell to 9.5 per cent in the latest June quarter.

Again Union, Andhra Bank and Corporation have huge bad loans of 15-16 per cent. All three banks had incurred huge losses in the March quarter. The Centre has understandably proposed to infuse a significant ☐11,700 crore into the merged entity. But the Centre's burden may not ease in the coming year.

The merger of Canara and Syndicate Bank is possibly among the better fits, with Canara Bank relatively a stronger entity with lower GNPA ratio of 8.7 per cent. But Syndicate Bank's higher bad loans and the fact that both banks have a low provision cover of less than 50 per cent, capital needs could be significant. The Centre allocating ☐6,500 crore into the entity could help, but again integration issues could arise.

Lastly, in the merger of Indian Bank with Allahabad Bank, the former's relatively stronger financial metrics and capital base, offers some comfort. Indian Bank is the only PSB that has not received capital from the Centre since the FY15 fiscal. The bank's lower bad loans and stronger capital adequacy ratio has been a big draw for investors. The Centre has hence proposed to hand out only Rs. 2,500 crore of capital into this entity.

But given that Indian Bank is south-based and Allahabad has more presence in the North and East region, synergies appear elusive.

Governance reforms

While the Centre has announced slew of reforms to improve the governance in PSBs, how these are implemented will need to be seen. The Banks Board Bureau, which was created with a lot of fanfare proved a damp squib. Also, with the merger proposals being pushed forward by the Centre as the majority shareholder rather than the bank boards, it is somewhat difficult to rest hopes on overhaul of the governance at PSBs.

That being the case it raises concerns over who takes over the reins of these mammoth entities. SBI's merger with associate banks was steered by Arundhati Bhattacharya, and that of BoB by PS Jayakumar, both experienced to take over the challenge. It is unclear how the Centre will address the issue of leadership at these entities over the coming months.

In the past, the government infusing capital at abysmal valuations has been eroding banks' book value significantly, hurting minority shareholders. Large mergers that are used to bail out weak banks and are not market driven, only leave public shareholders short-changed, as was in the case of SBI or BoB. How can these banks hope to raise capital from the market in future if minority shareholders continue to be short-changed ?

'Move is a precursor to privatisation of banks'

Mumbai | August 30, 2019 BUSINESSLINE

While top bankers welcomed the government's decision to consolidate 18 public sector banks into 12, employees unions said the move is a precursor to privatisation of these banks.

SBI Chairman Rajnish Kumar said the government's announcements on bank mergers is a cohesive and a clear recognition that bigger banks have that much more ability to absorb shocks, reap economies of scale, as well as the capacity to raise resources without depending unduly on the exchequer.

"The decision to have separate mechanism for sanctioning and monitoring of big loans will ring-fence the banks against potential frauds.

“Further, the decision to empower Bank Boards and operational flexibility in hiring from the market will prioritise robust risk management practices in decision making,” Kumar reasoned.

PS Jayakumar, MD and CEO, Bank of Baroda, observed that the combined institutions will be better than the earlier institutions, a sum of the whole. Once the business purpose is established, there is something for everybody to rally around.

“Acceptance for what is best for the breed and the employees, regardless of where the idea came from, is critical. The employees of the larger institutions, treating the other as equal is very critical,” he said.

S Nagarajan, General Secretary, All India Bank Officers’ Association, emphasised that the government should have had a debate in Parliament before announcing the amalgamation as public sector banks are governed by the Banking Companies (Acquisition and Transfer of Undertakings) Act, which has been passed by the Parliament.

Bank staff to protest against mega bank merger move

IANS, THE HINDU CHENNAI, AUGUST 30, 2019

A view of the Punjab National Bank (PNB) in New Delhi. | Photo Credit: R.V. Moorthy

Bankers will hold massive demonstrations on Saturday all over the country and also wear black badges.

The United Forum of Bank Unions (UFBU), the umbrella body of nine banking sector trade unions, has called for demonstrations across the country on Saturday to protest against the mega bank merger plan announced by the government on Friday, a top banking union leader said.

All India Bank Employees' Association (AIBEA) General Secretary C.H. Venkatachalam said that bankers will hold massive demonstrations on Saturday all over the country and also wear black badges.

AIBEA urges govt. to review merger plan

Association fears closure of branches, less job opportunities

The All India Bank Employees' Association has urged the Centre to review its proposal to merge 10 public sector unit banks into four big banks.

"The need of the hour is to come out of the economic crisis, rather than experimenting with anything," said C.H. Venkatachalam, general secretary, **AIBEA.**

According to him, the proposed merger would result in closure of large number of branches as it happened in the case of State Bank of India, affect banking services and reduce employment opportunities. AIBEA said it opposed the proposed merger as it would help only corporates and go against the requirements of the common people.

PSU Bank Mergers Lack Logic, Will Destabilise Economy: Bank Union

PTI @PTI_August 30 2019,

Bank unions on Friday opposed the mega merger of 10 state-run banks into four saying the move is bereft of logic and lacks any rationale. While announcing the merger, finance minister Nirmala Sitharaman said plans is to create fewer but stronger global-sized banks for building a $5 trillion economy.

The four mergers are Punjab National Bank will amalgamate with itself smaller peers Oriental Bank of Commerce and United Bank of India, to create the nation's second- largest lender; Syndicate Bank will merge with

Canara Bank; Union Bank of India will take over Andhra Bank and Corporation Bank; and Indian Bank will merge with Allahabad Bank.

The move will bring down the number of state-run banks to 12 from 19 after the merger of Dena Bank and Vijaya Bank with Bank of Baroda effective April 2019. As of April 20-17, there were 27 state-run banks in the country, right before the SBI merged with itself its five associate banks along with the Bharatiya Mahila Bank.

“The proposals which the government has moved are unmindful since it has no logic or rationale. Neither, it is the case that a weak bank is merged with a strong one nor geographically compatible banks are being merged,” All-India Bank Employees Association said in a statement.

The unions said the government has come out with merger proposals at a time when the economy is passing through a rough weather-as the announcements came an hour before the government reported that the economy slowed to the lowest level in 25 quarters in the April-June period clipping at a low 5 percent. “At this point in time, when stability is the need of the hour, the government itself is attempting to destabilise the finance and economy,” the statement said.

The union said in the process of merger, SBI had closed over 1,000 branches and in case of Bank of Baroda, more than 500 branches are being closed. “On one side the government wants to implement Jan Dhan, but how it is possible to implement the same by closing down the branches?” they wondered and announced that they will observe black day on Saturday and threatened to launch more protests go ahead.

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