AIBEA's Banking News

1 SEPTEMBER 2019

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Bank Merger Will Not Help Recover Bad Loans: All India Bank Employees' Association

The government on Friday announced a mega plan to merge 10 state-run public sector banks into four large entities to address economic concerns.

CHENNAI: 31 AUGSUT, 2019

The real agenda of the government in merging banks is to help big corporates as consolidation of the banks will not result in recovery of huge bad loans, said a top official of the All India Bank Employees' Association (AIBEA).

Opposing the merger of 10 public sector banks into four, CH Venkatachalam, General Secretary of AIBEA, in a statement issued said in the name of banking reforms the government is enabling banks to help corporates.

Mr Venkatachalam said that last fiscal the public sector banks posted a gross profit of Rs.150,000 crore. Owing to the provisions towards bad loans, there was a net loss of about Rs.66,000 crore.

According to him, the merger of banks will not result in recovery of bad loans. On the contrary, the merger of five associate banks of the State Bank of India has resulted in increased bad loans.

Pointing out at the Punjab National Bank, that failed to detect the Nirav Modi fraud, Mr Venkatachalam wondered how banks when they become bigger could monitor effectively.

The government on Friday announced a mega plan to merge 10 state-run public sector banks into four large entities to address economic concerns.

Bank unions plan to launch nation-wide protests against merger

M Ramesh Chennai | Updated on August 31, 2019

BUSINESSLINE

The United Forum of Bank Unions has planned a massive, nation-wide demonstration to protest against the mergers of public sector banks. The forum comprises four officers unions and five non-officers' unions, and represents a million bank employees.

"There will be serious strikes; we are going on a massive confrontation with the government," CH Venkatachalam, General Secretary, All-India Bank Employees Union (AIBEA), told *BusinessLine*. He termed the proposed bank mergers "ill-timed wrong decisions".

Stressing that the biggest problem with the banking industry today is that of non-performing loans, Venkatachalam wondered how merging two banks will bring NPAs down.

"In fact, it will slow down NPA recovery by diverting attention to other issues related to consolidation," he said. Another senior leader of the forum wondered why the government wanted to merge banks to create large entities while it was also encouraging small banks by giving out licences.

He pointed out that the large size of the bank was no guarantee against its failure, as witnessed in the fall of Lehmann Brothers in 2008. Even the merger of State Bank of India with its erstwhile associate banks could not prevent it from reporting losses, he noted.

Another source stressed that all banks, without exception, have been making operating profits consecutively — net losses are only because of provisioning for bad loans.

He said it was a myth that customer service would remain the same or improve after merger of banks when the mergers result in closure of thousands of branches.

Bank employees protest against Centre's Merger move, wear black bands to work

The Indian Express, Bhopal, 31 Aug 2019

On Friday, the BJP government at the Centre unveiled a mega plan to merge 10 public sector banks into four, to create fewer and stronger global-sized bankers as it looks to revive economic growth.

Bank employees under the aegis of United Forum of Bank raise slogans during nationwide agitation to protest against the merger of banks and anti-banking policies, in Bhopal, Saturday.

A day after the Centre's decision to merge 10 public sector banks into four entities, members of the All India Bank Employees' Association on Saturday staged a protest in Chennai against the government's move. Similar protests took place in Bhopal, Kolkata, and some other parts of the country as well.

As a mark of protest to the government's decision, employees of all public and private sector banks in Chennai wore black badges to work.

The Association's General Secretary, C H Venkatachalam told PTI that the government's move was "ill-timed" and needs a review. A rally opposing it was also planned by the Association, Venkatachalam told the news agency.

The merger of public sector banks would mean closure of six banks, he claimed.

On Friday, the BJP government at the Centre unveiled a mega plan to merge 10 public sector banks into four, to create fewer and stronger global-sized bankers as it looks to revive economic growth.

10 public sector banks — Punjab National Bank, 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 would be merged, Union Finance Minister Nirmala Sitharaman said yesterday during a press conference.

"Government may call it a merger.. six banks which have been built up over the years will disappear from banking scenario," Venkatachalam said as he recalled that when the financial recession was experienced world over in 2008, the domestic banking system was safe because of public sector banks.

When asked on the further course of action he said that the Union would meet in New Delhi on September 11 to decide on going on strike.

With Black Bands, Bank Employees Stage Protest Against Centre's Merger Move

The Association's General Secretary, C H Venkatachalam said the government's move was 'ill timed' and needs a review. He alleged the merger of public sector banks would mean closure of six banks.

PTI : August 31, 2019, Chennai

Members of the All India Bank Employees' Association on Saturday staged a protest in Chennai against the Centre's decision to merge 10 public sector banks into four entities.

Employees of all public and private sector banks wore black badges to work as a mark of protest to the government's decision.

The Association's General Secretary, C H Venkatachalam said the government's move was "ill timed" and needs a review. A rally opposing it was also planned by the Association, Venkatachalam told PTI.

He alleged the merger of public sector banks would mean closure of six banks.

The BJP government at the Centre had on Friday unveiled a mega plan to merge 10 public sector banks into four, to create fewer and stronger global-sized bankers as it looks to revive economic growth.

Finance Minister Nirmala Sitharaman Friday said 10 public sector banks — Punjab National Bank, 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 would be merged.

"Government may call it a merger.. six banks which have been built up over the years will disappear from banking scenario", Venkatachalam said.

He recalled that when the financial recession was experienced world over in 2008, the domestic banking system was safe because of public sector banks.

On further course of action, he said the Union would meet in New Delhi on September 11 to decide on going on strike.

No logic or rationale in mergers: All India Bank Employees Association stages protest

Employees of all public and private sector banks wore black badges as a mark of protest against the government's decision.

S. Mahadevan, Saturday, August 31, 2019

The NEWS Minute

After Finance Minister Nirmala Sitharaman announced the mega merger of public sector banks, the **All India Bank Employees Association** staged a protest denouncing the move and calling it unmindful and illogical. They have said there has been no attempt to merge weak banks with strong ones or some geographical considerations have been applied.

In a Mint report, they have said that the decision to merge United Bank with Punjab National Bank with their headquarters in Kolkata and Delhi respectively defies logic in the same way as that of merging Canara Bank and Syndicate Bank having strengths in the same regions. The unions feel these merger moves will only result in further destabilising the economy. The employees also claim a large number of branches are being closed due to these mergers. They cite that SBI and Bank of Baroda have closed 1,500 branches in all following mergers.

The Unions are observing black day on Saturday as mark of protest against this decision. Employees of all public and private sector banks wore black badges as a mark of protest to the government's decision.

Bank employees stage protest against Centre's merger plan

PTI Chennai | August 31, 2019 BUSINESSLINE

All-India Bank Employees' Association's General Secretary, C H Venkatachalam said the government's move was "ill timed".

Members of the All India Bank Employees' Association on Saturday staged a protest here against the Centre's decision to merge 10 public sector banks into four entities. Employees of all public and private sector banks wore black badges to work as a mark of protest to the government's decision.

The Association's General Secretary, C H Venkatachalam said the government's move was "ill timed" and needs a review. A rally opposing it was also planned by the Association, Venkatachalam told *PTI*. He alleged the merger of public sector banks would mean closure of six banks.

The government had on Friday unveiled a mega plan to merge 10 public sector banks into four, to create fewer and stronger global-sized bankers as it looks to revive economic growth. Finance Minister Nirmala Sitharaman Friday said 10 public sector banks -- Punjab National Bank, 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 would be merged.

"Government may call it a merger.. six banks which have been built up over the years will disappear from banking scenario", Venkatachalam said. He recalled that when the financial recession was experienced world over in 2008, the domestic banking system was safe because of public sector banks.

On further course of action, he said the Union would meet in New Delhi on September 11 to decide on going on strike.

Bank employees stage protest against Centre's mega mergers

Employees of all public and private sector banks wore black badges to work

By PTI / August 31, 2019 KOLKATA

THE WEEK

AIBEA alleged the merger of public sector banks would mean closure of six banks

Members of the All India Bank Employees' Association on Saturday staged a protest in Chennai against the Centre's decision to merge 10 public sector banks into four entities.

Employees of all public and private sector banks wore black badges to work as a mark of protest to the government's decision.

The association's General Secretary, C.H. Venkatachalam said the government's move was "ill-timed" and needs a review.

A rally opposing it was also planned by the association, said Venkatachalam.

He alleged the merger of public sector banks would mean closure of six banks.

The BJP government at the Centre had on Friday unveiled a mega plan to merge 10 public sector banks into four, to create fewer and stronger global-sized bankers as it looks to revive economic growth.

Finance Minister Nirmala Sitharaman on Friday said 10 public sector banks—Punjab National Bank, 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 would be merged.

"Government may call it a merger.. six banks which have been built up over the years will disappear from banking scenario", Venkatachalam said.

He recalled that when the financial recession was experienced world over in 2008, the domestic banking system was safe because of public sector banks.

On further course of action, he said the Union would meet in New Delhi on September 11 to decide on going on strike.

PNB board to meet on 5 September to consider merger with OBC, United Bank

31 Aug 2019, New Delhi: LIVEMINT

Punjab National Bank (PNB) on Saturday said its board of directors will meet on 5 September to consider the lender's merger with Oriental Bank of Commerce and United Bank of India.

In a BSE filing, Punjab National Bank said "the meeting of board of directors of the bank is scheduled to be held on 5th September, 2019" for considering some key agenda.

The board will meet to "consider the amalgamation of the Oriental Bank of Commerce and United Bank of India into Punjab National Bank", the statement said.

Besides, it will also consider a capital infusion of up to ☐16,500 crore by the government by way of preferential issue of equity shares and fixing the date of the extraordinary general meeting (EGM) for obtaining shareholders' approval in this regard at a price determined in terms of SEBI (ICDR) Regulations, the bank's filing said.

Meanwhile, Corporation Bank, which is going to be merged with Union Bank of India along with Andhra Bank, too, said a board meeting will be held to consider the merger.

In a stock exchange filing, it said "a meeting of the Board of Directors of the Bank to consider the amalgamation will be convened by the Bank in due course".

The government on Friday unveiled a mega plan to merge 10 public sector banks into four as part of its plans to create fewer and stronger global-sized lenders, in a move to boost economic growth from an over six-year low.

Finance minister Nirmala Sitharaman, who had last week announced tax sops and measures for sectors such as auto, announced four new sets of mergers — Punjab National Bank, Oriental Bank of Commerce and United Bank of India will combine to form the nation's second-largest lender; Canara Bank and Syndicate Bank will merge; Union Bank of India will amalgamate with Andhra Bank and Corporation Bank; and Indian Bank will merge with Allahabad Bank.

The exercise, seen together with the previous two rounds of bank consolidation, will bring down the number of nationalised public sector banks to 12 from 27 in 2017. This, according to the government, will make bank balance sheets stronger with greater capacity to lend. Five out of 10 lenders, which are part of the mega consolidation exercise, have said their board will convene shortly to take decisions on the amalgamation.

In a BSE filing, Andhra Bank said it has received a communication from the finance ministry to the effect that the alternative mechanism, in consultation with the Reserve Bank of India, has decided that Union Bank of India, Andhra Bank and Corporation Bank may consider the amalgamation of Andhra Bank and Corporation Bank into Union Bank of India.

"Accordingly, a meeting of the Board of Directors to consider the amalgamation will be convened by the bank in due course," it said.

United Bank of India and Allahabad Bank, too, in a separate filings informed that their board of directors would meet to consider the amalgamation.

Corporation Bank board to meet on amalgamation

Our Bureau Mangaluru | August 31, 2019 BUSINESSLINE

Corporation Bank has said that a meeting of the board of directors will be convened in due course to consider its amalgamation with Union Bank of India.

The bank informed the stock exchanges on Saturday that it has received a communication from the Finance Ministry stating that the Alternative Mechanism, after consultation with Reserve Bank of India, has decided that Union Bank of India, Andhra Bank and Corporation Bank may consider amalgamation of Andhra Bank and Corporation Bank into Union Bank of India.

"Accordingly, a meeting of the board of directors of the bank to consider the amalgamation will be convened by the bank in due course," it said.

RBI's huge surplus transfer, a bad idea

RK Pattnaik | August 30, 2019 BUSINESSLINE

The move has implications for the RBI's balance sheet, Union Budget, financial markets and debt management by the RBI

There has been an animated debate since August 26, 2019, on the decision of the Reserve Bank of India (RBI) to transfer its surplus under section 47 of the RBI Act, 1934. The amount, as reported in the RBI release, is Rs. 1,76,051 crore, which amounts to around 0.8 per cent of GDP.

Such a transfer is unprecedented in RBI history. There are two components of this transfer: the first is surplus before the adjustment to excess risk provision amounting to Rs 1,23,414 crore; and the second is the amount written back from contingency reserve fund aggregating Rs. 52,637 crore.

The surplus transfer was based on the recommendations of the 'Expert Committee to Review the Extant Economic Capital Framework of the Reserve Bank of India' (Chairman — Bimal Jalan). The committee was constituted on December 26, 2018, as per the decision of the RBI's central board on November 19, 2018.

The recommendations of the Jalan committee relating to surplus transfer was based on the size of the realised equity which is required to cover credit risk and operational risk, which the committee referred to as Contingent Risk Buffer (CRB). According to the committee, the RBI should maintain CRB within the range of 6.5-5.5 per cent of the RBI's balance sheet comprising 5.5-4.5 per cent for monetary and financial stability risks, and 1 per cent for credit and operational risks. It may be noted that for the four-year period 2015-2018, the CRB was in the range of 7.05-8.4 per cent. For 2019, this stood at 5.34 per cent after writing back of excess provision of Rs. 52,637 crore. The economic capital as on June 30, 2019, stood at 23.3 per cent of the balance sheet.

The surplus transfer policy is now formula based and thus transparent, which is an important departure from the past.

The formula-based CRB will take care of the risk provisioning and the central board of RBI will decide on the level of risk provisioning.

The overall surplus transfer of Rs. 1,76,051 crore in 2018-19 as against Rs.50,000 crore in the previous year represents an increase of around 252 per cent. This is because the net income was higher with increase in gross income by 146.59 per cent and decline in expenditure by 39.72 per cent.

The total income of the RBI (amounting to Rs.1,93,036 crore) comprised interest income of Rs.1,06,837 crore and other income — comprising (broadly) commissions, rent realised, profits or loss on sale of bank's property, provisions no longer required and miscellaneous — of Rs.86,199 crore.

The other income has shown a huge increase on account of provisions no longer required amounting to Rs.52,626 crore as against Rs.373 crore because of write-back of excess risk provision from contingency fund to provisions no longer required.

The surplus transfer in coming years thus, is critically dependent on the excess risk provisioning and subsequent written back from contingency fund to income. As alluded to earlier, the Jalan committee has recommended CRB within the range of 6.5-5.5 per cent of the balance sheet and the final decision of the risk provisioning depends on the central board.

The transfer from contingency fund to income is essentially an accounting arrangement to increase income. Even though it is transparent and formula based, it doesn't have the potential of true income.

Protecting the balance sheet

The true income, in the RBI context, is interest income earned from domestic and foreign sources. As evidence suggests, there are market uncertainties, both domestic and global, which could be a risk factor and could be much higher than the risk factor recommended by the Jalan committee. It is important, therefore, on the part of the central board, to protect the RBI balance sheet with a higher provisioning and not to support the government with a quasi fiscal deficit.

The surplus transfers to government amounting to Rs.1,76,051 crore will be recorded as a non-tax revenue in the government account. With this additional amount, the non-tax revenue in 2019-20, will be almost double at Rs.4,89,166 crore as compared with the previous year's (Rs.2,46,219 crores).

The net impact on the Budget will be, among other things, a reduction in the revenue deficit and fiscal deficit to 1.5 per cent and 2.5 per cent of GDP, respectively, in 2019-20.

In academic literature, the bonanza received from the RBI by the government is known as quasi fiscal deficit. This practice of managing the Budget goes against the basic principle of prudent fiscal management.

Further, it sends a negative signal to foreign investors and credit rating agencies.

This development is critical as the government has proposed the issuance of sovereign bond of around $10 billion. The reduction in fiscal deficit has its impact on the financing of the same. The government with such huge surplus transfer, may reduce the budgeted borrowing programme which will adversely affect the debt management strategy of the government.

In the event the government goes for the budgeted market borrowings, there will be a huge cash surplus maintained with the RBI making cash management and monetary management difficult. These critical issues need to be addressed.

Thus it may be concluded that the surplus transfer from the RBI has implications for the central bank's balance sheet, government budget, financial market and, above all, monetary policy and debt management by the RBI.

Since surplus transfer, in essence, is a quasi fiscal deficit of the government, care should be taken not to swell this by accounting arrangement irrespective of the transparency in the operation. End of the day, there are two balance sheets, even if the government is the owner of the RBI. It is prudent always to protect the RBI's balance sheet.