AIBEA's Banking News

8 - 10 SEPTEMBER 2019

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Merging state banks won't solve governance issue: Former RBI Governor YV Reddy

BY , ET BUREAU | SEP 06, 2019, MUMBAI ECONOMCI TIMES

Former Reserve Bank of India Governor YV Reddy on Friday said that **merging state-run banks will not solve the issue of governance** and consolidation should be based on synergies with boards driving the initiative.

Reddy also said that global experience has so far shown that **half of bank mergers have been ineffective.**

"I won't call it a reform, it's a commercial decision based on synergy. global experience in the banking system shows that only half of the bank mergers have been successful," Reddy said while speaking at the 6th SBI Banking & Economic conclave.

"**If the purpose is governance, it will not be solved by merging two banks**. However, if it's for economies of scale namely operational efficiency it could happen. Mergers could be done by the respective boards as well by analysing synergies, it need not necessarily be through government."

The government recently merged 10 state-run banks overnight into 4, along with the much-awaited governance reforms that include making PSB managements accountable to respective boards, strengthening the executive succession process and giving longer tenures to top-level directors so that structural changes yield the desired results.

The finance ministry’s decision comes close to the 50th anniversary of nationalisation of banks and marks 5 years of the PJ Nayak committee set-up to review governance in PSU banks.

Commenting of the collapse of the infrastructure financier IL&FS, Reddy said that the whole episode reflects the failure of risk assessment capabilities of stakeholders.

“In my view the IL&FS problem reflects the risk-assessment capabilities of large institutions that had exposure to that,” Reddy said. “SBI, LIC should examine this point how did they miss it? It is not a system wide liquidity problem if you ask me it may be a contagion. In a way if the government had to virtually take over IL&FS and run its affairs, it is an indication that the government has recognised it as some sort of a solvency problem.”

What IL&FS leaves in the wake of its destruction is weaker banks, mutual funds, pension funds and an economy which has slowed to a six-year low. With most debating if India is under-going only a cyclical or a more-worrisome structural downturn.

“There is a consensus that current slowdown is a combination of structural and cyclical factors,” Reddy said. “The latest RBI annual report aptly describes the situation that there are large number of uncertainties globally and domestically and they we are in a soft patch. It is said that beauty lies in the eyes of the beholder, the beauty of the Indian economy is also in the eyes of the beholder, it depends who is looking at it half the time.”

Reddy also said that the world is facing enormous uncertainties and it may have geo-political repercussions as well. India could affect the outcomes if it teams-up with some other tier-2 nations. He also painted a grim picture of the on-going trade wars and said that he sees protectionist policies on the rise.

“Tension between globalisation and nationalisation will intensify rather than reduce in the near future,” Reddy said. “The US-China trade war is only the tip of the iceberg there are more fundamental issues at stake.

Now, the global currency is the US dollar, China is trying to contest that. In the real sector China is progressing in the financial sector US is dominating, so there is a disconnect."

Will PSB mergers alter the banking scenario?

Suresh Seshadri, SEPTEMBER 06, 2019 00:THE HINDU

Consolidation will cause disruption in the short run, but could lead to speedier decision-making in future

Last week, the Centre announced a sweeping consolidation that would see 10 public sector banks being merged into four. While the government has touted the move as one that will enhance credit capacity, there are concerns that more large banks could make the banking system vulnerable.

In a conversation moderated by **Suresh Seshadri**, T.T. Ram Mohan, Professor of Finance, IIM-Ahmedabad, and V. Srinivasan, a veteran banker, look at the challenges to successful integration.

Excerpts:

How does this merger benefit the economy?

T.T. Ram Mohan: How it benefits the economy remains to be seen. Because I think the case for the merger has not been articulated properly enough. **We have some reference to Indian banks becoming global in size. But that sort of talk needs to be discounted**.

Because, even if you take the largest of the mergers that have been proposed, which is PNB combining with two other entities, it's going to give you a bank which is about one third the size of the 50th largest bank in the world, which is not saying much.

Second, the c**orrelation between size and efficiency is suspect beyond a certain minimum size**. And that size is quite low: say $10 billion in assets or so you get the necessary scale of economy. Beyond that, the **empirical evidence does not suggest there are many great advantages to simply growing bigger**.

And we have seen this in the Indian context where the large public sector banks underperform in relation to private banks, which are much smaller. And of course, the classic comparison is between HDFC Bank and the consolidated State Bank of India, which is many times its size.

The price to book value ratio of HDFC Bank is close to 4, whereas the price to book value of SBI is around 1.25. Therefore, the suggestion that getting bigger is going to, in itself, give you some benefits is not validated by experience, either internationally or within India.

Srinivasan, as someone who is from within the industry, is integration going to be something which ends up in some way impacting the so-called benefit that the integration move aims to provide? Is the timing going to end up getting the management of these banks to focus on integration itself rather than on using the balance sheet to lend to the economy, especially when investment pickup is crucially required?

V. Srinivasan: I would agree with the argument that, from a timing point of view, **this does not seem an ideal time for going ahead with these mergers**. Because, as all of us are aware, the economy is clearly going through a major slowdown. And it requires all hands on the deck. And whenever a merger of such scale happens, I think the senior management gets distracted in terms of trying to make sure who gets what. I think there's a lot of work to be done. Even though that may be done by several teams, ultimately human emotion will come into play here, where people are going to be looking at saying, "What's in it for me? Where am I headed as far as this action is concerned?"

And therefore, in the short term, I think **there is going to be some amount of disruption**. That is something which you could have avoided in this sort of time. Consolidation is good, because from an administrative perspective, as people retire, you would see some economies of scale getting through, but just sort of putting banks together is not going to solve the problem as far as the credit flow is concerned.

There's also this other issue, that from a structural perspective, fewer larger banks might increase the risks to the banking industry.

TTR: The way to look at that question is to see the share of the top three or the top five banks in assets. And if that share is very large, then you have a concentrated banking system. If the share is too low, then you have a highly fragmented banking system. And I think it's fair to say that in India we were tending towards a high degree of fragmentation rather than concentration. So, I think so far as the increase in systemic risk is concerned, it's not going to be an immediate problem. Because if you look at the share of the top three or four banks in assets it was about 30-32%. That is not a very high degree of concentration.

But I do know that regarding the point that Srinivasan made, which is that in order to **make a success of a merger, you need two conditions to be satisfied — you need a very high degree of managerial ability, and at least one of the entities in the merger must be financially strong — I'm afraid I can't see either condition being satisfied in the mergers that are being proposed.**

If you're not able to make a success of your operations and deliver the performance of your existing level of assets, how does the management propose to make a success of a much bigger and more complex entity?

The question is not answered simply by citing the theoretical scale economy. Making a success of merger is a huge challenge.

Another concern is that as earlier mergers haven't yet given the benefits, why then this rush to announce a whole host of mergers.

VS: As far as Bank of Baroda (BOB), Vijaya Bank and Dena Bank are concerned, it's still very early days... I don't think the merger integration is complete. And clearly we have not seen much in terms of how exactly they have put things together and gone to the market, with a single value proposition. The way I look at it, this was something which has been on the table for a long time. I think they tried out BOB and just decided to go ahead.

The feedback from the BOB experiment was that things were not falling apart. And things seemed to be broadly business as usual, not very different from what was happening in the past. And they decided that this is something which we can go ahead with and do the rest of the previous plan, which was actually already, I think, part of the blueprint. I think that's how they have gone ahead with these mergers.

The only thing here is, I don't think there's any identity which they have tried to create for each of these merged entities in terms of trying to say, one will be focusing on Corporate, one will be on Small and Medium Enterprises, one will be Retail.

There's been no thinking in terms of any or each of these banks' focus on a particular theme, particular skill-set and developing expertise in a space which is important as far as the overall economy is concerned. Basically, I think they've said, every bank falls broadly in the same template, and there's not much to choose from in terms of who goes with whom.

From an underlying logic perspective, there are those who fear that bank NPAs could worsen, at least in the interim, while this process of integration is on.

TTR: In terms of resolution of NPAs there is some merit in having the merger because there are coordination problems involved when you have multiple banks trying to resolve NPAs which are common to all of them. So, you have the middle and senior management deputed for meetings, where they have discussions with their counterparts from other banks. And then they have to go back to the top management for a decision, come back again for a meeting, and it goes on and on.

Therefore, the resolution of NPAs becomes difficult when you have so many banks trying to arrive at an understanding amongst themselves. So, to the extent that the discussion is happening among fewer banks, I think the resolution of NPAs will be facilitated. That could be one argument for the merger.

But I think the most important rationale is that the multiplicity of banks was making enormous demands on the bandwidth of the Finance Ministry in terms of appointments of chairmen, managing directors, executive directors, independent directors. Even though they have the banks board bureau to advise them on appointments, the process is extremely time-consuming.

There were long delays in making the senior appointments, as a result of which these banks have been incurring substantial costs. When you don’t have a person at the top or persons at the top, or even directors in play, it exacts its own cost on the bank. And so, collapsing the number of banks makes it easier for the Ministry to monitor the banks on its watch. I think that is probably one argument for the merger which I can sort of relate to.

The other argument is that having bigger entities enables people to make bigger loans, which would give them a degree of pricing power vis-a-vis corporates because corporates have been playing one bank off against the other under the multiple banking system.

To the extent that you combine banks and they do a bigger amount of funding, it does improve the bargaining position of the bank. Again, fee income that the banks get from selling mutual funds and insurance products can go up, because now the banks can command a much larger network and therefore demand a bigger commission from the people whose products they’re selling.

The fundamental issue is a managerial issue with making a success of the merger, which is a challenge even in a developed economy, where you have a lot of flexibility in terms of laying off people, rationalising branches. Here, even if you rationalise the branches, a commitment has been given that people will not be laid off.

That is one of the assurances given by the Ministry. And therefore, it’s not clear how any cost economies will be effected... if people are to be retained and yet be redeployed for other purposes.

There are those who say “we were comfortable with a small bank, are we going to be lost in the larger scheme of things once this bank becomes owned by some bank from Mumbai?” How does this really pan out for the customers?

VS: I would think it is more the lending side which can get impacted on account of this rather than the customer on the deposit side. The deposit side, however weak the government-owned banks, they didn't face any risk of deposits sort of unwinding and they continued to have reasonably decent deposit growth, irrespective of whether they were figuring in the top quartile or the bottom quartile because the sovereign guarantee was clearly there. It will be business as usual. I don't think things will change as far as these banks are concerned.

From a lending perspective, the impact will be felt more for the SMEs and small businesses, who have a lot to gain from the personal contact they have with a local person. And as that becomes a lot weaker, that can impact... That is something which we will know only as we go along. But there would be some amount of transition issues as things change.

Is this announcement going to make a large difference to the banking industry?

VS: Clearly, a lesser number of banks means, hopefully, speedier decision-making across banks. That's the upside one can hope for. And the other thing which it can trigger is some consolidation in private sector banks. Because the private sector banks would now be falling behind in terms of scale compared to some of these banks. And therefore, to some extent, this can force the private sector banks to think of a similar consolidation.

PNB puts up for sale 11 NPA accounts to recover dues of Rs.1,234 crore

PTI NEW DELHI, SEPTEMBER 08, 2019

THE HINDU

The accounts include Visa Steel, which has irrecoverable dues of Rs.441.83 crore, IndBarath Energy (Utkal) Rs.414.23 crore, Aster Private Limited Rs.113.57 crore and Om Shiv Estates Rs.100.16 crore

State-owned Punjab National Bank (PNB) has put up for sale nearly a dozen non-performing assets (NPAs) to recover dues of more than Rs.1,234 crore.

The lender has invited bids from asset reconstruction companies (ARCs), non-banking finance companies (NBFCs), banks, financial institutions for 11 NPA accounts.

The accounts include Visa Steel, which has irrecoverable dues of Rs.441.83 crore, IndBarath Energy (Utkal) Rs.414.23 crore, Aster Private Limited Rs.113.57 crore and Om Shiv Estates Rs.100.16 crore.

The sale is on 100% cash basis, PNB said in an advertisement.

The bank has asked the prospective bidders to expedite the process of due diligence, saying it will make all possible efforts to bring copies of documents at one place for verification. The prospective buyers shall be intimated separately, depending upon their response. The prospective bidders can evince their interest by September 12.

The last date to submit bids is September 20, 2019. The bids will be opened on September 21.

The lender is set to merge two peer banks – Oriental Bank of Commerce and United Bank of India – with itself following the government's announcement late last month to consolidate 10 public sector banks into four bigger entities.

SBI sought issuance of 147 Look Out Circulars in last five months: RTI

PTI NEW DELHI, SEPTEMBER 08, 2019

THE HINDU

The Right to Information query was filed by Pune-based activist Vihar Durve

The Country's largest public sector bank – State Bank of India – sought issuance of 147 Look Out Circulars (LoCs) in the last five months in connection with bank fraud cases, an RTI response from the bank said.

Data shows that the bank started seeking LoC from the Bureau of Immigration from April this year.

Between April and August, it issued request seeking LoCs against 147 individuals to prevent them from leaving the country, the bank said in response to a Right to Information query filed by Pune-based activist Vihar Durve said.

On October 12, 2018, the Home Ministry included Chairman, Chief Executive Officers and Managing Directors of public sector banks in the list of individuals who can seek issuance of Look Out Circulars against offenders to prevent their escape from the country, it said.

According to data provided in Parliament in December last year, about 49 economic offenders have escaped to different countries and the government is making attempts to bring them back.

Fugitive liquor baron Vijay Mallya, diamantaire Mehul Choksi and his nephew Nirav Modi, industrialists Nitin and Chetan Sandesara are among 58 economic offenders probed by the CBI, Enforcement Directorate and other agencies who have escaped abroad, it says.

Although top officials of public sector banks were empowered last year to seek issuance of LoC against individuals, relevant guidelines were framed by the Indian Banks' Association in March this year, the Association told Mr. Durve.

The guidelines were considered necessary after public sector banks approached the Association seeking legal protection and immunity available to police and the CBI while issuing the LoCs, it said.

Mr. Durve had approached the Finance Ministry seeking to know details about the request for issuance of LoCs received from various authorities between 2017 and 2019, action taken on them among other things.

The Finance Ministry transferred the application to the Home Ministry and Public Sector Banks to furnish the information.

The Home Ministry then transferred the application to the Bureau of Immigration (BOI), which works under the Intelligence Bureau. The BOI sought refuge from disclosure under the Section 24 of the RTI Act which exempts it from the ambit of the transparency law.

However, State Bank of India in its response to Mr. Durve said it has sought issuance of 147 Look Out Circulars while Union Bank of India replied the information was not in its domain.

UCO Bank said it does not issue Look Out Circulars while Punjab and Sindh Bank said their MD and CEO were authorised to issue the LoCs but "there is no such data" available.

Bank of Baroda said the information does not pertain to it and Canara Bank said no requests for LoCs were made by it in the period.

In FY19, the banking sector reported 6,801 frauds involving Rs.71,542.93 crore as against 5,916 cases involving Rs.41,167.04 crore reported in 2017-18, the Reserve Bank of India has said in its latest report.

Among bank groups, PSBs, which have the largest market share in terms of lending, accounted for the majority of frauds reported in 2018-19. It was followed by private sector banks and foreign banks.

In the reporting year, State-run banks reported 3,766 cases of frauds worth Rs.64,509.43 crore. The report said the average lag between the date of occurrence of frauds and its detection by banks was 22 months.

The average lag for large frauds, that is, Rs.100 crore and above, amounting to Rs.52,200 crore reported during 2018-19, was 55 months," it said.

Cheating and forgery were the major component, followed by misappropriation and criminal breach of trust. Fraud cases involving an amount of less than Rs.1 lakh (i.e., small-value frauds) were only 0.1% of the total amount involved in 2018-19, the report showed.

Merged PSBs must cut stake in insurers

Manojit Saha MUMBAI, SEPTEMBER 07, 2019

THE HINDU

However, public sector lenders may wait for initial share offerings to get better valuation

After the merger of 10 public sector banks (PSBs) into four, two of them will hold over 15% stake in two different insurance companies, individually.

According to insurance regulations, a bank cannot hold more than 15% stake in more than one insurance company.

“Having more than 15% stake in an insurance company gives the status of the promoter to the entity. One entity cannot be a promoter of two insurance companies,” a senior insurance industry official said. “So, the banks have to completely exit one insurance company or cut stake to 15%,” the official added. Two sets of merger-bound PSBs will hold stakes in two different insurance companies, post the merger. One is Punjab National-Oriental Bank of Commerce-United Bank of India combine and another is the Union Bank-Andhra Bank-Corporation Bank combine.

In the first combine both PNB and OBC hold stakes in two different insurers. PNB has a 30% stake in PNB Metlife Life India Insurance Company while OBC holds 23% in Canara-HSBC-OBC Life Insurance. So, the merged entity — PNB — will hold over 15% stakes in both the companies.

In the second combine, Union Bank holds 25% stake in Star Union Dai-Ichi Life Insurance Company while Andhra Bank holds 30% stake in India-First Life Insurance Company. So, the merged entity — Union Bank — will have more than 15% in both the life insurers.

However, bank officials said they were not in a hurry to cut stake as that could impact valuations. Banks would wait for an initial public offering (IPO) to offload stakes.

“We are not in a hurry to sell stake. After the merger, when there is an IPO of one of the companies, we will reduce stake,” said a top official from one of the merger-bound banks.

Banks will have to get the permission of the Insurance Regulatory and Development Authority of India (IRDAI) — the insurance regulator — for holding over 15% stake in two insurers for a while, that is, till the IPO. Bank mergers are expected to be completed by March 2020 and it is unlikely insurers would like to hit the capital markets, especially when the markets are choppy.

Interestingly, PNB Metlife was planning an IPO last year but postponed its plans due to market conditions.

OBC had also been planning to divest stake in Canara-HSBC-OBC Life Insurance last year but the plan was shelved.

IDBI Bank, in which LIC has a majority stake, also has an insurance arm in IDBI-Federal Life Insurance in which it holds 48% stake.

The bank has now started the process of exiting the life insurance company

18 public sector banks hit by 2,480 fraud cases of Rs 32,000 cr in Q1: RTI

PTI Indore | September 08, 2019

THE HINDU BusinessLine

A total of 2,480 cases of fraud involving a huge sum of Rs 31,898.63 crore rattled 18 public sector banks in the first quarter of this fiscal, an RTI query has revealed.

The country's largest lender State Bank of India (SBI) remained the biggest prey to frauds with 38 per cent share, Neemuch-based activist Chandrashekhar Gaur told PTI on Sunday quoting an official of the RBI who furnished him replies to his RTI application. As many as 1,197 cases of cheating involving Rs 12,012.77 crore were detected in SBI in the first quarter, according to the RTI reply.

After SBI, Allahabad Bank faced the heat with 381 cheating cases involving Rs 2,855.46 crore. Punjab National Bank stood third in the list with 99 sham cases worth Rs 2,526.55 crore. However, the information provided by the RBI does not give specific details of the nature of banking fraud and the losses suffered by banks or their customers. On losses suffered by PSU banks due to frauds, the RBI said it did not have figures available as to how much amount was lost by theses banks during the period under review.

A total of 75 cases of fraud involving Rs 2,297.05 crore were reported in Bank of Baroda in the first quarter, while 45 cases of fraud amounting to Rs 2,133.08 crore in Oriental Bank of

Commerce, 69 cases worth Rs 2,035.81 crore in Canara Bank, 194 cases worth Rs 1,982.27 crore in Central Bank of India, 31 cases of fraud of Rs 1,196.19 crore in United Bank of India were witnessed.

Likewise, Corporation Bank detected Rs 960.80 crore worth fraud in 16 cases, Indian Overseas Bank Rs 934.67 crore in 46 cases, Syndicate Bank Rs 795.75 crore in 54 cases, Union Bank of India Rs 753.37 crore in 51 cases, Bank of India, Rs 517 crore in 42 cases and UCO Bank detected Rs 470.74 crore fraud in 34 cases. Other banks, which fell victim to fraud included Bank of Maharashtra, Andhra Bank, Indian Bank and Punjab and Sind Bank.

12 PSU banks almost right for India: Finance Secretary

PTI New Delhi | September 08, 2019

THE HINDU BusinessLine

Described the decision as a building block for achieving $5 trillion economy target

The amalgamation of 10 public sector banks into four has nearly ended the consolidation process and created almost the right number of banks to cater to the needs of the aspirational and new India, Finance Secretary Rajiv Kumar said.

This exercise will create six global size banks and will bring down the number of nationalised public sector banks to 12 from 27 in 2017.

“This is almost the right number of the banks which the country needs,” he said.

The Central Government on August 30 announced the consolidation of 10 large public sector banks into four.

He described the Centre’s decision as a building block for achieving $5 trillion economy target.

“To support next level of growth, the country needed big banks. The mega merger announced on August 30 aims to achieve that objective. We will now have six mega banks with enhanced capital base, size, scale and efficiency to support high growth that the country requires to break into the club of middle income nations," he said.

The consolidation will help create strong and globally competitive banks with economies of scale and enable realisation of wide-ranging synergies, he said adding that now they would have wider reach, stronger lending capacity and better products and technology to serve customers of new India.

Kumar, who spearheaded the exercise of cleaning up the banking sector, has several firsts to his credit. These include highest ever capital infusion in the banking history and successful completion of the first three-way merger with Bank of Baroda as the anchor bank.

As a result of various initiatives taken by the finance ministry, the banking sector witnessed a reversal in the deteriorating bad loan situation with reduction of non-performing assets (NPA) by Rs 1.06 lakh crore and record loan recovery of Rs 1.21 lakh crore in the last fiscal.

The cleaning up exercise undertaken by him has now started showing result with 14 out of 18 public sector banks posting profit in the first quarter of the current fiscal.

Earlier this year, Bank of Baroda merged Vijaya Bank and Dena Bank with itself to become the second largest public sector lender. State Bank of India had merged five of its associate banks - State Bank of Patiala, State Bank of Bikaner and Jaipur, State Bank of Mysore, State Bank of Travancore and State Bank of Hyderabad and also Bhartiya Mahila effective April 2017.