



# Banking News

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NEWS BULLETIN from ALL INDIA BANK EMPLOYEES' ASSOCIATION

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**STRIKE BY 150 MILLION WORKERS OF INDIA**

**STRIKE BY 6 LACS OF BANK EMPLOYEES & OFFICERS**

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# **Forum moves court against SBT, SBI merger**

BUSINESSLINE 30 8 16

## ***Petitioners want State Bank of Travancore's current regional banking services to continue***

The Save SBT Forum and 11 other petitioners have filed a writ petition in the Kerala High Court seeking a stay on the proposed amalgamation of State Bank of Travancore with its parent State Bank of India.

Specifically, the petitioners have sought interim relief of stay on the decision of the respondents — Union of India, State Bank of India (SBI), State Bank of Travancore (SBT), and Reserve Bank of India — regarding acquisition of SBT by SBI and all further proceedings thereon and to maintain status quo by the parties, till the final disposal of the petition.

In its petition, the forum has prayed that the court issue a writ directing the Union of India (Ministry of Finance) to engage appropriate agencies/ authorities, including the Comptroller and Audit General of India, to investigate into the (allegedly) vested and deviated practices and policies followed by SBI and SBT in showing low profit (for SBT) for the year 2015-16 and net loss for the first quarter of 2016-17 by showing excessive provisions and other charges, against the norms of RBI.

The petitioners, who also include three shareholders and two borrowers of SBT, want the court to declare that SBT is duty bound to continue with its existing regional banking services with various social welfare measures, rather than wealth creation and profitability alone, since it is a public sector bank having responsibility and accountability towards the general public.

### **SBI's shareholding**

They also want the court to issue a writ directing the respondents — Union of India, Department of Financial Services, SBI and the RBI — to disinvest SBI's shareholdings in SBT and other associate banks so as to raise capital funds for the future operations and to permit SBT to function independently with existing characteristics and resources.

The decision to merge SBT with SBI has become a political issue in Kerala with the Left Democratic Front Government moving and passing a 'motion' in the Kerala Assembly on July 18 against the acquisition of SBT by SBI and demanding that the Centre and the RBI withdraw the acquisition/merger decision.

According to the 'motion', the merger move is against the interests of the State of Kerala as a whole since a major part of the financial transactions of the Kerala government are being carried out by SBT, the largest public sector bank in the State.

SBI is planning to amalgamate its five associate banks — State Bank of Hyderabad, State Bank of Patiala, State Bank of Bikaner & Jaipur, State Bank of Mysore and SBT — with itself by the end of this financial year.

## **Banks can do better on provisioning for loan losses: RBI Deputy Governor**

**Provision coverage ratio has declined in recent months, says NS Vishwanathan**

NEW DELHI, AUGUST 30: BUSINESSLINE

The Reserve Bank of India wants banks to be aggressive on the provisioning front so as to protect their balance sheets from any future shocks from ageing non-performing loans.

The current level of provision coverage ratio (PCR) in banks is low and even declined in recent months, NS Vishwanathan, Deputy Governor, RBI, said at an Assocham-organised national conference on risk management.

Vishwanathan later told BusinessLine that banks are expected to take steps to improve PCR once their profits go up.

"They (banks) will do that (improve PCR). At one time, their (banks) PCR was as high as 70 per cent," he noted.

PCR is a measure that indicates the extent to which a bank has provided for the troubled parts of its loan portfolios. This indicates the extent of funds that a bank has kept aside to cover loan losses.

The RBI expects addition to NPAs (non-performing assets) to moderate but the provisioning needs, as the NPAs age, will put pressure on the profit and loss account.

Speaking at the conference, Vishwanathan said that the total stressed assets of public sector banks (PSBs) have risen to 14.5 per cent as at end-March 2016. They still contain some element of restructured assets indicating potential for some more pain, albeit of lesser intensity.

He also highlighted that the annual recovery of NPAs had fallen from 20 per cent in 2013-14 to 9 per cent in 2015-16. This indicated that the NPA problem has assumed greater significance.

Incremental accretion of NPAs has been high in recent years, especially after the Asset Quality Review (AQR) exercise.

### **Risk management**

Vishwanathan noted that a strong underwriting system that is properly steeped in understanding and mitigating risks is the first element of credit risk management. This could happen only when risk culture permeates across the bank, he said.

Spreading the risk culture is the function of the board and top management of banks, he added.

The RBI Deputy Governor also wanted banks to be wary of "hitting their exposure limits" to large corporates. The central bank has allowed banks to have an exposure of up to 15 per cent of their capital to a counter-party and 40 per cent to a group.

# Centre hikes minimum wages and bonus, trade unions not impressed

**Left-leaning trade unions say they will proceed with the September 2 nationwide strike**

**Arindam Majumder, Arup Roychoudhury & PTI | New Delhi August 31, 2016  
BUSINESS STANDARD**

The Centre on Tuesday increased the minimum wages and bonus for its employees to pacify trade unions that have called a nationwide strike on Friday.

The Minimum Wage Advisory Board on Tuesday announced a hike in the lowest wage for unskilled central government workers to Rs 350 a day from Rs 246. The increase will also be effective for central public sector undertakings.

“The government has effected a 43 per cent increase in the minimum wage. This was a major demand of the trade unions,” Union Labour Minister Bandaru Dattatreya (pictured) said.

Dattatreya has held meetings with trade unions over their charter of demands. The issues have been taken up by an inter-ministerial committee headed by Finance Minister Arun Jaitley.

“The bonus entitlements for 2014-15 and 2015-16 will be released on revised norms. This was pending for two years. After this, the bonus will be covered under the Seventh Pay Commission,” Jaitley said.

The Payment of Bonus Act, 2015, doubled the statutory bonus paid to central government employees and made more workers eligible by raising the salary ceiling from Rs 10,000 a month to Rs 21,000. The Bill was to be effective from April 2015 but was made applicable from April 2014 on a personal intervention by Prime Minister Narendra Modi.

The likely financial implications of the higher bonus could be Rs 1,920 crore per annum.

On the opposition to the government's plans to merge associate banks of the State Bank of India with the parent, Jaitley said, "The merger is not a subject for trade unions."

"There will be no impact of the merger on the service conditions of any employee. If the government decides that we need strong banks, then unions will have to change their approach to the whole issue," Jaitley said.

The issue of providing social security benefits to the unorganised sector like anganwadi, mid-day meal and Asha volunteers will be examined by a committee that will submit its report at the "earliest". Jaitley said the registration of contract workers and their staffing agencies was mandatory and states would be advised to strictly implement it. Contractors would face appropriate action for any violation, he warned.

The Bharatiya Janata Party's trade union wing Bharatiya Mazdoor Sangh (BMS) said it would not participate in this week's strike. "The BMS is withdrawing from the strike as the government has taken progressive steps," said V Upadhyaya, general secretary of the BMS.

Left-leaning trade unions, however, said they would proceed with the strike. "The announcement on daily wages merely maintains the status quo," said Tapan Sen of the Centre of Indian Trade Unions. "No major demand has been accepted. There is no question of calling off the strike," he added. As many as 10 central trade unions had given the call for a one-day pan-India strike on September 2 to protest against the government's labour reforms.

## **LABOUR LOVE**

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- The Payment of Bonus Act, 2015, doubled the statutory bonus paid to central government employees and made more workers eligible by raising the salary ceiling from Rs 10,000 a month to Rs 21,000
- Bharatiya Mazdoor Sangh will not participate in this week's strike

# **Are bigger banks better? Check out what should be the top priority**

The bigger a bank becomes, the greater is the tendency to leverage technology to automate processes

August 24, 2016 FINANCIAL EXPRESS

**The concept of creating big banks through mergers to reap economies of scale has been in circulation for quite some time.**  
(Reuters)

During the last two years, various initiatives taken by the government have helped the country become the fastest growing major economy. While creation of physical infrastructure has featured prominently in the entire scheme of things, the banks, especially the public sector banks (PSBs)—main source of debt for infrastructure projects— are reeling under stressed assets and, thus, are severely constrained in terms of taking fresh exposure in infrastructure projects. Until and unless the PSBs are de-stressed, this can become a major stumbling block for the economy.

The concept of creating big banks through mergers to reap economies of scale has been in circulation for quite some time. Certain quarters perceive such a move to enhance the capital efficiency of the merged entity, rationalise the cost of operation, improve recovery of NPAs and also allow better bargaining power in terms of raising capital from external markets. At the first edition of Gyan Sangam, the bankers' retreat organised by ministry of finance, in January 2015, the government officials floated the idea of bank consolidation which banking chiefs turned down unanimously. However, at the second Gyan Sangam held in March this year, the discussion was no longer on the need for consolidation, but on how to consolidate. Government made its intent clear for PSB mergers which has been followed up with the approval of merging six PSBs with SBI.

A move like that will certainly push up the global ranking of SBI among the largest banks of the world. **But will it augur well for India? Did we act in haste in a matter of national importance? The government would**

**have done well to wait for some more time and indulge in more research before going ahead with such a decision.**

What seems to have been inadvertently overlooked is how the **creation of bigger players can adversely impact the service delivery and take the focus away from the customers, especially the medium, small and micro customers. Experience from the banking sector shows that the bigger a bank becomes, its processes become more mechanical and it is the connect with the customer that gets neglected.** It is for this very reason that entities like NBFCs and MFIs exist as commercial banking leaves a huge void and is unable to cater to the credit needs of the vast multitudes.

In this context, it is worth appreciating the difference in nature of the banking sectors in Europe and the US. Europe has mostly large banks and thus, when the banking sector faced a systemic crisis, economic growth plunged as credit intermediation suffered largely. On the contrary, in the US, many small banks and non-banks exist alongside the big banks. As a result, even when the big banks suffered during the global financial crisis, the US economy did not come to a standstill as the smaller banks carried on with their job. Thus, US has been able to cope with the crisis better than Europe. In India, too, although the commercial banking sector's ability to lend has got constrained, its adverse impact on the economy is getting cushioned by the NBFCs and MFIs.

PM's call for promoting entrepreneurship is spot on as that holds the key towards unlocking India's true potential, creating new employment and generating wealth. Not all entrepreneurial ventures are urban start-ups. Majority of such ventures are from the grassroots level at the villages and non-urban centres. More than just funds, these entrepreneurs need mentoring and hand-holding. To enable that, nurturing a human interface in our banking system is imperative. The bigger a bank becomes, the greater is the tendency to leverage technology to automate processes. Therefore, the **decision to create fewer but larger PSBs can do a major disservice to the cause of promoting entrepreneurship.** This is something we simply cannot afford at this juncture when our economy is poised for a take-off. It is also worth noting that private banks will not be too keen to cater to the



credit needs of entrepreneurs. It is the PSBs which will need to take the lead on this front.

Government should have ideally carried out an evaluation for a worst-case scenario, i.e, how creation of such banking behemoths can impact the economy in case of any future financial crisis. The 2008 global financial crisis is still fresh in our memory and we have already seen how the so-called big banks in the US, which are said to be 'Too Big To Fail' and account for a lion's share of banking assets, created a systemic risk. When the financial crisis broke out, the problems not only remained restricted to the US, but also spread to other continents due to the interconnectedness of global capital, thanks to modern technology. Taking a lesson from that episode, we should have tested our preparedness in before taking such a giant step.

From that perspective, it seems that our present banking system with 27 PSBs and a mix of other banks is better off for the time being. We must not forget that, in India, the PSBs already hold nearly three-fourths of the total banking assets. Thus, **reducing the number of players can only increase the concentration risk.** If the merged entity comes under a financial crisis, **it can pose a serious systemic risk making the entire economy vulnerable.**

In our efforts to reap economies of scale in the banking system, we cannot afford to expose ourselves to bigger risks in the future. Our priority for the time being should not be creation of bigger banks, but making our banks better. The focus should be on how to capitalise our banks well, how to resolve the stressed assets problem and how to make our banking systems and processes robust so that the operational efficiency and flexibility of the banking system improves. Of course, that does not rule out possibilities of bank mergers in the future. We should be open to the idea of mergers, but we must ensure that the merged entities complement each other well to ensure that the merged entity does not become too big to pose any concentration risk. But that can be taken up at a later date and on a case-by-case basis.

*The author is **Sunil Kanoria**, president, ASSOCHAM. Views are personal*

GOVERNMENT OF INDIA  
MINISTRY OF FINANCE  
DEPARTMENTAL OF FINANCIAL SERVICES

RAJYA SABHA

UNSTARRED QUESTION NO.1737

TO BE ANSWERED ON THE 2<sup>ND</sup> August, 2016/ Shravana 11, 1938 (SAKA)

PSB loans to corporate houses

QUESTION

1737. SHRI RITBRATA BANERJEE:

Will the Minister of Finance be pleased to state:

- (a) whether it is a fact that the top ten corporate houses owe a huge amount of money to the Public Sector Banks and financial institutions;
- (b) if so, the details thereof, group-wise;
- (c) what measures are adopted to collect the loans from them; and
- (d) by what time the Government plans to collect the money?

ANSWER

by

(SHRI SANTOSH KUMAR GANGWAR)

Minister of State in the Ministry of Finance

(a) & (b): Reserve Bank of India (RB) has informed that **gross outstanding credit for top ten corporate groups is Rs. 5,73,682 crores as on March 2016**. In exercise of powers conferred under Section 27 (2) of the Banking Regulation Act 1949, the RBI collects credit information from banks under the CRILIC reporting system (for borrowers with the credit exposure greater than Rs 5 crores) operationalised from September 2014. Under Section 28 of the BR Act 1949. Reserve bank can disclose information in such consolidated form as the Bank deems fit. Further as per Section 45 (E) of RBI Act 1934. RBI is prohibited from disclosing credit information except under certain conditions.

(c) & (d): The recoveries of instalments (Principal and interest amount) is done as per the loan agreements between the borrower and the lender. Once a loan becomes Non-Performing Assets, various recovery measures as prescribed in bank's recovery policy and RBI framework is initiated by the lender. The Government has taken specific measures to address issues in sectors such as Infrastructure (Power, Roads etc.), Steel and Textiles where

incidence of NPAs is high. The government has also approved establishment of six (6) new Debt Recovery Tribunals (DRTs), to speed up the recovery of bad loans of the banking sector, in addition to existing thirty three. RBI has also undertaken steps which include (i) Formations of Joint Lenders' Forum (JLF) for revitalizing stressed assets in the system, (ii) Flexible Structuring for long term project loans to Infrastructure and Core Industries, and (iii) Strategic Debt Restructuring (SDR) scheme. (iv) Scheme for Sustainable Structuring of Stressed Assets. The Government has recently issued advisory to banks to take action against guarantors in event of default by borrower under relevant section of SARFAESI Act, Indian Contract Act & RDDB&FI Act, since in the event of default; the liability of the guarantor is co-extensive with the borrower.

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## **12 POINT CHARTER OF DEMANDS OF CENTRAL TRADE UNIONS**

1. *Urgent measures for containing price-rise through universalisation of public distribution system and banning speculative trade in commodity market*
2. *Containing unemployment through concrete measures for employment generation*
3. *Strict enforcement of all basic labour laws without any exception or exemption and stringent punitive measures for violation of labour laws.*
4. *Universal social security cover for all workers*
5. *Minimum wages of not less than Rs 18,000/- per month with provisions of indexation*
6. *Assured enhanced pension not less than Rs.3,000/- p.m. for the entire working population*
7. *Stoppage of disinvestment in Central/State PSUs and strategic sale*

8. *Stoppage of contractorisation in permanent perennial work and payment of same wage and benefits for contract workers as regular workers for same and similar work*
9. *Removal of all ceilings on payment and eligibility of bonus, provident fund; increase the quantum of gratuity.*
10. *Compulsory registration of trade unions within a period of 45 days from the date of submitting application; and immediate ratification of ILO Conventions C 87 and C 98*
11. *Against Labour Law Amendments*
12. *Against FDI in Railways, Insurance and Defence*

### **AIBEA TODAY – 1<sup>ST</sup> SEPTEMBER**

1928	D P Chadha, former President, AIBEA (date of birth)
1932	L N Bhayal, former Vice President (Date of birth)
1938	Bechan Lal, former Asst. Secretary, AIBEA (date of birth)
1987	Supreme Court orders on RRB Industrial Tribunal constitution.
2009	AIBEA General Secretary CHV – Public lecture at Colombo on Global recession – a political perspective.
	Com. Lalitha , Joshi Joint Secretary participates in workshop on development of Female leadership in trade Unions in Colombo, Srilanka



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