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# Bank unions on all-India strike today against consolidation plans

## Services at public sector banks are expected to be hit with employee unions going on a nationwide strike against bank consolidation, inadequate capital support for banks

Alekh Archana, LIVE MINT 22 8 2017

Services at public sector banks are expected to be hit on Tuesday with employee unions going on a nationwide strike.

The employees are protesting against the proposed consolidation of public sector banks, inadequate capital support for banks and loan defaults by large borrowers. The strike has been called by the United Forum of Bank Unions (UFBU), an umbrella body of nine unions including the All Indian Bank Officers Confederation and **All India Bank Employees' Association (AIBEA).**

C.H. Venkatachalam, general secretary of AIBEA, said in a statement on Monday that nearly 1 million bank employees across all 21 public sector banks will go on strike.

The strike is likely to impact State Bank of India as two of its unions have decided to participate, the bank had informed exchanges on Saturday.

"**Banks are cutting savings deposit rates, but at the same time, they are losing interest because of the pile of bad loans, mainly due to large loan defaults. Only customers are getting burdened because of this**," Venkatachalam said.

Unions are demanding that banks should not write off non-performing assets (NPAs) and that wilful default be declared a criminal offence.

Gross bad loans of banks rose over 24% year-on-year to Rs7.79 trillion at the end of June. Of this, Rs 6.83 trillion belongs to public sector banks.

The unions are demanding adequate capital support to banks instead of pushing them to raise funds from private players, as this would result in dilution of government’s stake.

The unions are also protesting against the government’s move to consolidate public sector banks.

The government is looking to reduce the number of public sector banks to 10-15, through a series of mergers and acquisitions, Mint reported on 21 August, citing Sanjeev Sanyal, principal economic adviser at the finance ministry.

A.K. Nayak, chief labour commissioner, met the representatives of UFBU and Indian Banks’ Association. However, there was no agreement over the demand, and unions decided to go on strike, Venkatachalam said.

# SBI, PNB account for 40% of bad loans’

PTI NEW DELHI,AUGUST 20, 2017 **THE HINDU**

Officers of the State Bank of India protesting at the relay strike in Hyderabad on Tuesday demanding salary revision .

## Wilful Defaulters owe Rs 92,376 cr. to PSBs

Country’s largest lender State Bank of India accounts for over 27% of the total amount owed to public sector banks by wilful defaulters. As many as **1,762 wilful defaulters owed Rs 25,104 crore to SBI** as on March 31, putting pressure on its balance sheet.

**Punjab National Bank (PNB**) is next on the list with **1,120 wilful defaulters** having outstanding non-performing assets of **Rs 12,278 crore**. Together these two banks account for **Rs 37,382 crore or 40%** of the total outstanding loans.

Total outstanding loans due to PSU banks by **wilful defaulters amounted to Rs 92,376 crore, a**ccording to the Finance Ministry data.

The total outstanding loans by wilful defaulters rose to Rs 92,376 crore at the end of financial year 2016-17, from Rs 76,685 crore at the end of last fiscal 2015-16, up 20.4%.

# Number of PSU banks to fall to 10-15 after consolidation: Sanjeev Sanyal

Principal economic adviser Sanjeev Sanyal says the government is willing to support PSU banks by infusing capital in excess of the Rs. 20,000 crore promised as part of the Indradhanush plan over this fiscal and the next

Sahib Sharma, LIVEMINT

**Sanjeev Sanyal, principal economic adviser in the finance ministry. The consolidation of public sector banks, which account for 80% of the bad loans in the banking system, is aimed at building scale and bolstering their risk-taking ability.**

**New Delhi:** The government is looking to reduce the number of public sector banks to 10-15, more than what was envisaged earlier, through a series of mergers and acquisitions so that none of the banks become too big to fail, said Sanjeev Sanyal, principal economic adviser at the finance ministry.

"Consolidation will not be taken too far to four or five as speculated since the whole system breaks down even if one fails. Eventually, possible number will come down between 10 and 15. It will be done purely on commercial basis," Sanyal said in an interview.

The consolidation of struggling state-run banks, which have a market share of about 70% and account for over 80% of the bad loans in the Indian banking system, is aimed at building scale and bolstering their risk-taking ability. The government hopes that this, along with measures such as capital infusions in weak banks, will trigger a revival.

"In case of consolidation, one should not factor in balance sheet only but also process, integration of technology and people. For State Bank of India (SBI) it was easy because they were relatively under the same architecture," said Kartik Srinivasan, senior vice-president at rating agency Icra Ltd.

SBI has merged operations of five of its associate banks and Bharatiya Mahila Bank with itself earlier this year, marking the first consolidation move in the sector following the bad loan crisis. The merger has reduced the number of state-controlled banks to 21 from 26.

It has, however, turned out to be much costlier for SBI than expected, with a drastic deterioration in its asset quality following the merger. One reason for the sharp increase in bad loans was that the non-corporate loan book of SBI's associate banks followed an internal classification standard that was different from SBI's, chairman Arundhati Bhattacharya said after announcing the bank's June quarter earnings.

The government, Sanyal said, is willing to go the extra mile to support banks by infusing capital in excess of the Rs20,000 crore promised as part of the Indradhanush plan over this fiscal and the next.

Under the Indradhanush scheme introduced in 2015, the government had agreed to infuse Rs70,000 crore in state-run lenders over four years. They were to receive Rs10,000 crore in 2017-18 and the same amount the following year. The government has so far proposed to infuse Rs8,586 crore in 10 lenders this year, subject to the banks meeting stringent requirements for improving their health.

"Once the (bad loan) resolution process moves somewhat, we will get a better fix on how much money banks need after accounting for provisioning and recovering," Sanyal said. "There are a number of options before the government, ranging from recapitalization through bonds, general budget and reducing holding down to 52% without doing privatization. Some combination of these will be used."

Reserve Bank of India (RBI) governor Urijit Patel last week said public sector banks will require higher recapitalization. "It is clear that PSBs will need to take haircut on current exposure and resolution plan agreed within or outside the Insolvency and Bankruptcy Code. Higher provisions requirement will affect the capital position of several banks. This will necessitate higher recapitalization of these banks," Patel said.

Along with resolving stressed assets, banks also have to comply with Basel III norms, which require them to maintain a capital adequacy ratio of 10.875% by March 2018 and 11.50% by March 2019. In addition, new accounting standards for banks will kick in from 1 April 2018, requiring them to make higher provisions.

"Recovery is not much happening in the system and on the contrary, the NPA stock is rising. Going forward, new accounting standards will bring along its own share of volatility on mark to market value, thus increasing more pain for the banks," said Srinivasan.

Services at public sector banks may take a hit on Tuesday as all unions under the United Forum of Bank Unions have threatened to go on strike against the government's consolidation plan, besides raising a host of other demands.

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# The Banking Regulation (Amendment) Bill, 2017

## Saugata Roy (Trinamul Congress), West Bengal

Sir, I rise to speak on the Banking Regulation Amendment. I have given a notice opposing the introduction of this Bill and I had also given a Statutory Regulation against the Ordinance. Why had I opposed the introduction? I had said that this is not a necessary Bill. Nor was there any hurry in issuing an Ordinance. I shall substantiate my points with what I had said at that time.

Per se, the Bill may not be bad. But I will show that this Bill is unnecessary under existing laws. The Government could have taken steps against NPAs. **There is no doubt that the problem of NPA has reached heights from which Government will find it very difficult to extricate itself**.

The total assets of the State in terms of gross NPAs and restructured standard advances of scheduled commercial banks was Rs 9.64 lakh crore on December 31, 2016. Share Rs 9 lakh crore se zyada hain. And if you really look at the total NPAs during financial year 2016 for public sector banks, which was 9.83 per cent of gross advances, or almost 10 per cent of advances to the public sector banks, measures seem to have been taken.

But, as a Member correctly pointed out, what was the Government doing for three years as the NPA rose? And we will talk about Vijay Mallya. I will give you the names of 12 top NPA people, the total 'toxic' 12. The total NPA amount is Rs 7.7 lakh crore. Which are the big companies?

Bhushan Steel has NPAs of Rs 44,000 crore, then there are Lanco Infratech, Essar Steel, Bhushan Power and Steel, Alok Industries, Amtek Auto, Monnet Ispat, Electrosteel Steel, Era Infra Engineering, Jaypee Infratech, ABG Shipyard and Jyoti Structures. The total NPAs of just 12 companies amounts to Rs 2,53,729 crore. It is these 12 companies against whom action has been taken under the Insolvency and Bankruptcy Code.

But unfortunately this has the possibility of getting stuck in court because there is already one case in Ahmedabad High Court. So whether this will really sort out the problem, I am not too sure. That's why I am saying that the Government had several instruments in its hand for three years, even before this law was enacted. It had both legal and non-legislative loan recovery options. It could have done loan restructuring, corporate debt restructuring, joint lenders' forum, five-is-to-twenty-five scheme, strategic debt restructuring or sustainable structuring of State assets. These are the non-legislative ways open to the banks.

The other thing is, there is already DRT – for recovery of debts due to banks and financial institutions. There was a surface act under which asset reconstruction companies could have taken over assets. And then in 2016, we had the Insolvency and Bankruptcy Code. The Insolvency and Bankruptcy Code is a good law.

Now, this Ordinance or the Bill – what new thing do they bring? That the Reserve Bank may issue directions to a bank to go for insolvency proceedings. Now what does the Insolvency Law say? You first appoint an insolvency professional, then he forms a lenders/creditors' committee, and then the creditors' committee gets together and takes a decision on the bank. The ultimate arbiter is the National Company Law Tribunal. So this is the procedure; and the advantage of the Insolvency Code is that you have to settle the matter within 180 days. So it is a time-bound resolution of the problem of insolvency. But the Government hurried with this law for these 12 companies whose name the Reserve Bank did not disclose. I have got it from the internet.

However, the main question remains – is the Reserve Bank an appropriate authority? I am totally against the Reserve Bank of recent times, post-Raghuram Rajan, because this is the **Reserve Bank which, till date, has not been able to count the notes which were deposited during demonetisation.** So why should we have confidence in such a Reserve Bank? Our Standing Committee has repeatedly asked the Reserve Bank Governor – why don't you say how much money has come in? My information is that they are still counting; they say they have to bring in machines from abroad. This Reserve Bank is totally inefficient and incapable. Nobody knows how much money has been deposited. And about the story of demonetisation – the balloon will be punctured when it will become known.

Now, the **whole banking system**, as our Chairman of the Standing Committee, Veerappa Moily says, **is facing a collapse**. The Government is trying to clutch at straws, and one straw is this Ordinance.

Now, I want to ask various questions. Currently, under Section 35A, the Reserve Bank may issue directions to banks on grounds of public interest and in the interest of banking policy. This ordinance gives the RBI additional power to direct banks to initiate recovery proceedings. So when already the RBI has the power to issue directions, why do you need the Ordinance?

The second question is, the majority of NPAs, 88 per cent of the NPAs, are in public sector banks. Mind you, the private sector banks like HDFC, ICICI, do not have such large NPAs. So the Government could have itself issued directions instead of asking the useless RBI to issue directions, since the Government owns all these.

My next question. As a banking regulator, the RBI is supposed to look after the macro-economic picture. It, as a regulator, is responsible for maintaining the financial stability while banks have the flexibility to make business decisions. Say, you have to settle a loan, and so, you have to take a haircut. Now the banks will not take the decision. They will say that let the RBI tell you then you have to take a haircut and settle the matter; so the whole thing will be delayed.

The appropriateness of the RBI directing Banks on the issue of default, which is a business decision, needs to be examined. Why not leave the banks to their own things?

Currently, banks face certain challenges as part of the recovery proceedings, such as the lack of incentives among public sector bankers to recognise losses, the fear of investigation in the case of low recoveries, insufficient capital to absorb the losses.

Everybody has mentioned that banks do not have the capital according to banking norms.

I have already said that I have given a statutory resolution, have opposed the introduction of the Bill and have called this an unnecessary Bill. With that I would rather say that I would expect the Bill, but if you accept Supriya Sule's Amendment. She has said that this decision about going for insolvency and bankruptcy procedures should be left to the banks themselves. Please accept that, and then I will support the Bill.

| AIBEA THIS DAY – 22 AUGUST | |
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| **1954** | **Foundation of Assam Provincial Bank Employees' Association at Jorhat. Com. Sunil Gupta and Com. Narain Das elected President and General Secretary.** |
| **1975** | **National Convention of Co-op. Bankmen Hyderabad – A Bhagavanth Rao AP Finance Minister Inaugurates** |
| **1975** | **AIBEA Central Committee meets at Ludhiana.** |

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