



Cabinet clears alternative mechanism to oversee PSU bank mergers

SURABHI, BUSINESSLINE NEW DELHI, AUG 23:



Finance Minister Arun Jaitley addressing a press conference in New Delhi on Wednesday

Setting the stage for more mergers, the Union Cabinet on Wednesday approved an alternative mechanism to oversee proposals of amalgamation of public sector banks.

"The proposals received from banks for in-principle approval to formulate schemes of amalgamation shall be placed before the Alternative Mechanism (AM)," said Finance Minister Arun Jaitley, adding that the decision will be based only on commercial consideration by the boards of the banks involved.

After getting in-principle approval, the banks will take steps in accordance with the law and SEBI requirements. "The final scheme will be notified by the Central government in consultation with the Reserve Bank of India," he told newsmen after the Cabinet meeting.

Jaitley said the decision will help “create strong and competitive banks that can absorb shocks and have the capacity to raise resources without depending on the state exchequer”.

The alternative mechanism will include a panel of ministers, whose members will be decided by the Prime Minister. But it is expected to include Jaitley and Minister of Road Transport and Highways Nitin Gadkari.

At present, there are 20 public sector banks, apart from State Bank of India, which recently merged with five of its subsidiaries and the Bharatiya Mahila Bank.

The proposal of fewer but stronger state-run lenders was originally mooted in 1991, but in recent years, the Finance Ministry has been hoping to bring down the number of public sector banks to about a dozen to create economies of scale and improve their functioning.

Jaitley, however, said the government is not targeting any fixed number of consolidations in the sector.

Will help NPA resolution

While bank unions struck work on Tuesday protesting against privatisation and amalgamations, analysts have said that mergers and consolidation will help in faster resolution of bad loans of public sector banks.

“Public sector banks will benefit from operational and functional synergies, resulting in better efficiencies. Merger amongst similar performing banks can also result in effective resolution of non-performing assets across lenders,” said Krishnan Sitaraman, Senior Director, CRISIL Ratings.

Cabinet gives in-principle approval for Public Sector Banks to amalgamate through an Alternative Mechanism (AM)

The Union Cabinet chaired by the Prime Minister Shri Narendra Modi has given in-principle approval for Public Sector Banks to amalgamate through an Alternative Mechanism (AM). The decision would facilitate consolidation among the Nationalised Banks to create strong and competitive banks.

Salient features:

The salient features of the approval Framework for Consolidation of Public Sector Banks are as follows:

- The decision regarding creating strong and competitive banks would be Solely based on commercial considerations.
- The proposal must start from the Boards of Banks.
- The proposals received from Banks for in-principle approval to formulate schemes of amalgamation shall be placed before the Alternative Mechanism (AM).
- After in-principle approval, the Banks will take steps in accordance with law and SEBI's requirements.
- The final scheme will be notified by Central Government in consultation with The Reserve Bank of India.

Background:

In 1991, it was suggested that India should have fewer but stronger Public Sector Banks. However, it was only in May 2016 that effective action to consolidate public sector banks began to be taken by announcing amalgamation of six banks into the State bank of India. The merger was completed in record time, unlike earlier Mergers of State Banks of Indore and Saurashtra.

SBI is now a single bank with about 24000 branches, over 59000 ATMs, 6lakh POS machines and over 50,000 business correspondents, which serve all parts of the country, including far flung areas. Indeed 70% of SBI's network lies in rural and semi-urban areas. In that sense, the bank serves to unite India through a uniform banking culture. It also has a significant international presence, and is one of the largest global banks. Its size, financial strength and outreach have made it possible for customers to access a world wide network of branches across all time zones, as well as to a very wide variety of banking products and superior technology. Loansto

The small business man or woman and to the Krishak have become cheaper as SBI offers the lowest lending rates. More than 8.6 lakh merchants have been on board on BHIM Aadhaar, Bharat QR and POS, increasing the digital banking footprint. SBI has successfully raised Rs.15,000 crore QIP.

There are now 20PSBs other than SBI. The banking scenario has changed Since 1970/80 when banks were nationalised, with an increased banking presence from Private Sector Banks, non-banking Financial Companies, Regional Rural Banks, Payment Banks and Small Finance Banks. The decision is expected to facilitate the creation of strong and competitive banks in public sector space to meet the credit needs of a growing economy, absorb shocks and have the capacity to raise resources without depending unduly on the state exchequer.

UFBU TO PROTEST AGAINST MERGER MOVE

Message from UFBU :

Yesterday Govt has announced the mechanism for bank mergers. To express our protest hold demonstrations in all State capitals and major towns immediately within few days as decided by local Ufbu units. : Convener

PSU bank mergers: Putting lipstick on a pig

With most public sector banks saddled with non performing assets (NPAs) in excess of their net worth, the PSU bank mergers will generate no shareholder value

A merger between a healthy bank and a zombie one risks dragging down the merged entity into the ranks of the Undead

Aug 23 2017| [Aparna Iyer](#) LIVEMINT

The PSU Bank Nifty index moved up 2.1% on Wednesday on news that the Union Cabinet has moved another step towards the merger of some of the state-owned banks. Bank consolidation has been on the cards for a long time, but the latest move will give it a push.

The Cabinet has given its in-principle approval to PSU bank mergers and a panel of ministers led by the finance minister will decide on the candidates and the scheme to create 10-15 large public sector banks by merging some of the state-owned lenders. Then the boards of the banks will have to initiate the consolidation process.

Ostensibly, the decision to go in for a merger lies with the individual bank boards. But the government is the largest shareholder and everybody knows it calls the shots.

Why is consolidation necessary? The accompanying chart shows that most of public sector banks have gross non-performing assets (NPAs) in excess of their net worth. They are generating no shareholder value. As independent expert Ashwin Parekh succinctly put it, "It is not a question of efficiency but that of survival."

With their net worth eroded, several PSU banks are in no position to lend. They are the walking dead of Indian banking. Unless something is done, these zombie banks will infect the entire economy. The decision to merge some of them is the government's way of showing that something is being done.

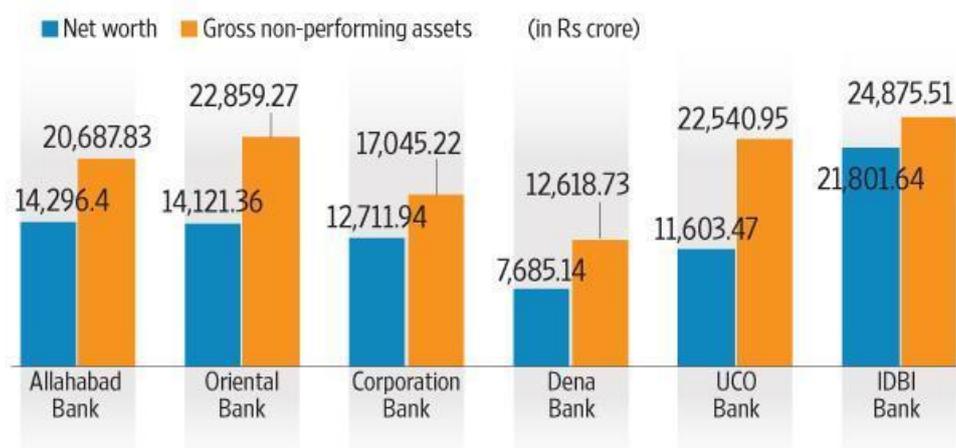
Mergers, claim its votaries, will prevent erosion of capital and help banks meet higher requirements under Basel-III norms. More importantly, the government will be spared from spending money to recapitalise the

banks—it will instead reach into the pockets of the better-off banks for the purpose.

Will the mergers lead to a healthy, vibrant state-owned banking sector? Sometimes mergers can be effective, but it will take time and expertise, luxuries state-owned banks lack. The costs will be front-loaded and the benefits will come later, if they come at all. Investors in some of the zombie banks will of course rejoice—a merger is a lifeline for them. But for the better-run banks, mergers with weak banks are a disaster. A merger between a healthy bank and a zombie one risks dragging down the merged entity into the ranks of the Undead.

CONSOLIDATION OR RESURRECTION?

Public sector banks are creating no shareholder value with most having gross NPAs higher than their net worth.



Figures for all banks, except IDBI Bank, are as of March-end; for IDBI Bank it is June end.

Source: Capitaline

Most of public sector banks have gross non performing assets (NPAs) in excess of their net worth

Most public sector banks have exposure to the same set of stressed assets. A merger increases the concentration risk as the merged entity will end up holding a larger exposure to stressed sectors.

What the government risks creating through merging loss-making banks is the birth of a large loss-making entity. But that is just one set of problems.

It simply isn't true that bigger banks are better. The Indian market itself has seen several smaller private banks that have a higher valuation than their larger peers.

On paper, PSU bank mergers are supposed to create the highest value for shareholders and increase efficiencies. But consider the facts on the ground: in India, even well-managed private sector banks have struggled

to digest their acquisitions. Recently, State Bank of India (SBI) saw its fresh slippages soar in the quarter ended 30 June simply because its staff and those of its associates were preoccupied with rationalizing processes after the merger. As more and more man hours are involved in making sense of new systems, existing problems get ignored. This is something the banks cannot afford as the bad loan problem is akin to a ticking time bomb.

Also, since public sector lenders cannot fire excess staff, voluntary retirement benefits would punch a hole into their earnings in the short-term. Plus, which bank now has the money for a VRS? Add to that the problems with technology mismatches and, even more importantly, the very different cultures of two organizations.

Investors will soon realize that, for the state-owned banks, mergers and consolidation will amount to little more than putting lipstick on a pig.

Bank services hit across country as staff go on strike

Banking operations across the country were hit on Tuesday as over 10 lakh bank employees in more than 1,30,000 branches pan-India struck work -- protesting against reforms in the banking sector

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hindustantimes



People walk in front of a bank that was closed due to the nationwide bank strike, in Kolkata on Tuesday.

Banking operations across the country were hit on Tuesday as over 10 lakh bank employees in more than 1,30,000 branches pan-India struck work -- protesting against reforms in the banking sector among other issues -- thereby affecting cheque-clearing activity.

An official of the United Forum of Bank Unions (UFBU) -- the umbrella body of nine unions which has given the strike call -- said "over 10 lakh bank employees spread in more than 1,30,000 branches across the country have struck work hitting cheque-clearing activity".

Most public sector bank branches visited by IANS correspondents had their shutters down.

Banking operations in Tamil Nadu were affected with around 55,000 bankers striking work pressing for their demands, said a report from Chennai citing a top **All India Bank Employees' Association (AIBEA)** leader.

"The strike is a huge success. It is a dawn-to-dusk strike as cheque clearing operations start at 6 a.m. Bankers working in around 10,300 branches struck work protesting the policies towards the sector," C.H. Venkatachalam, General Secretary, AIBEA told IANS.

Venkatachalam said around 12 lakh financial instruments valued at around Rs 7,300 crore would not be cleared.

With branches closed, automated teller machines (ATMs) might get empty sooner than normal.

Government treasury transactions would also be impacted. Foreign exchange transactions, import and export bill transactions, sanction of loans and others would also be affected.

In most of the places, clearing operations, particularly outward clearing, was seriously affected.

Normally in the three clearing grids functioning from South, West and North -- Chennai, Mumbai and Delhi -- on an average about 40 lakh cheques and instruments worth about Rs 20,000 crore are transacted per day. This has been affected in a big way as a result of the employees' stir, Venkatachalam said.

Over 150,000 bank employees in Maharashtra joined the nationwide banking strike, paralysing all financial operations in the country's commercial capital, a union official said in Mumbai.

The strike hit all the 42,000 branches of 21 public sector banks, including the monolithic State Bank of India and IDBI, 18 old-generation banks, eight foreign banks and 56 Regional Rural Banks in Mumbai and

Maharashtra, said All Indian Bank Employees Association (AIBEA) leader Vishwas Utagi.

"All cheque clearing operations, financial transactions and other routine daily banking functions are stopped today (Tuesday) due to the strike. Many ATMs, which are now functional, may run out of cash by noon as there will be no replenishment," Utagi told IANS.

The strike comes after the talks here between UFBU on one side and Indian Banks' Association, Chief Labour Commissioner and Department of Financial Services (DFS) failed on Friday.

"All India State Bank Officers' Federation and All India State Bank of India Staff Federation, being part of the UFBU, will participate in the strike. It is likely that our bank will also be impacted by the strike," State Bank of India (SBI) said in a regulatory filing in the BSE.

Among the 17-point charter of union demands, the main relates to the government's denial of adequate capital to public sector banks, thus creating conditions for privatisation, an AIBEA statement said on Tuesday.

"The one-day banking strike has been successful as close to 9,500 ATMs and around 3,000 branches are closed with 70,000-100,000 bank employees participating in the protest in West Bengal," AIBEA's (West Bengal) General Secretary Rajen Nagar said in Kolkata.

All India Bank Officers' Association's (West Bengal) General Secretary Sanjay Das said employees and officers from cooperative and grameen banks including regional rural banks also participated in the strike and private banks' branches were mostly closed as their employees supported unions' demand.

"The strike is 100 per cent successful. Bank employees and officers are conducting demonstration in front of banks' branches and ATMs," Das said.

Thousands of employees of state-run banks began day-long strike in cities and towns across Karnataka, affecting cash and other transactions for the day, said a report from Bengaluru.

"We have received an overwhelming response from all our members for the strike call in support of our demands, including our opposition to the merger of state-run banks," state AIBOC General Secretary A.N.K. Murthy told IANS.

In Bengaluru, hundreds of employees of various banks took out a rally and staged demonstrations protesting against the government's proposal to merge their banks.

Private banks, including ICICI Bank, HDFC Bank, Axis Bank and Kotak Mahindra, however, opened for business as usual

Banking services were badly affected in the Left-ruled Tripura on Tuesday as most of the major banks remained closed due to a nation-wide employees' strike.

The striking employees were protesting the "anti-people banking reforms" and demanding for compensation to employees for extra work done on account of demonetisation of high value currencies since November 8, 2016, and booking loan defaulters.

According to Nikhil Das, a leader of the striking employees, around 3,000 bank employees belonging to about 414 branches of 15 nationalised, regional, rural and cooperative banks in the northeastern state took part in the strike in Tripura.

A large number of ATMs also remained closed, creating problems for the customers.

AIBEA THIS DAY – 24 AUGUST

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| 1948 | Strike called off by Central Bank of India Employees' Union at Calcutta. Bank agrees for the demands. |
| 1954 | Government modifies certain aspects of LAT Award. |
| 1964 | AIBEA and Northern India Banks Association sign interim settlement on DA increase and other issues. |
| 1985 | AIBOA/AIBOA meet Finance Minister Shri V P Singh on Wage Demands. |
| 2004 | All India Strike by UFBU, AIBEA, AIBOA, on wage demands |
| 2007 | Ashis Sen (85) former MP, former General Secretary, AIRBEA, BEFI, passes away |



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