AIBEA's Banking News

31 AUGUST , 2017

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

PSU bank merger won't improve capitalisation: Moody's

The merger of public sector banks will not improve their weak capitalisation without capital infusion from the government, says Moody's Investors Service

PTI/ mint 28 8 2017

Government owns majority stakes in 21 banks and merger of some of them is being considered for broader economic revival. Photo: Mint

'Sans fund infusion, PSB mergers won't improve capitalisation'

New Delhi: The Union Cabinet's decision to speed up the merger of public sector banks (PSBs) will not improve their weak capitalisation without capital infusion from the government, Moody's Investors Service said on Monday.

The decision to set up a ministerial panel led by finance minister Arun Jaitley to consider and oversee mergers among the country's 21 PSBs is "credit positive because mergers would provide scale efficiencies and improve the quality of corporate governance", it said in a statement.

"However, absent fresh capital infusions from the government, such mergers would not improve public-sector banks' weak capitalisation," it added.

Government owns majority stakes in 21 banks and merger of some of them is being considered for broader economic revival. These lenders account for more than two-thirds of banking assets in India. "Poor corporate governance has been a structural credit weakness at public-sector banks, and managing all 21 has proven to be unwieldy for the government, which has been unable to pay sufficient attention to key issues such as long-term strategies and human resources.

Consolidation would address some of these issues," Moody's said. The global credit rating agency said that consolidating PSBs would also help from a scale perspective. PSBs hold around 74% of all deposits, it said, adding that with the exception of State Bank of India, none of the others is large enough to have a competitive advantage.

"This may change with consolidation, given the potential for some of these banks to grow to levels that exceed even large private-sector banks," it said. Notwithstanding the positive effect on corporate governance and scale efficiencies, any proposed mergers would not improve PSBs' weak capitalisation.

Moody's said most of them have weak capital levels and merging two or more entities with weak capital levels will create a larger entity with weak capital. "Until there is clear visibility on the merger process, including which entities would merge with and the terms of such a merger, public-sector banks will continue to have difficulty accessing the equity capital markets as investors demand clarity on these details.

"As a result, we continue to believe that capital infusions from the government remain key to improving these banks' capital levels," it added. The Cabinet approval, it said, is only the first step in the complex process. "However, we believe that there is a high probability that the mergers will take place given the government's apparent willingness to see this through."

'Government ready to provide capital support for PSU banks' merger'

NEW DELHI: PTI/ ECONOMCI TIMES 27 8 2017

The Finance Ministry is open to providing capital support for facilitating consolidation among state-owned banks, which are reeling under mounting bad loans, official sources said.

The Union cabinet has approved the setting up of an alternative mechanism, or a panel of ministers, to decide on consolidation proposals for state-run banks.

On receiving a proposal from stressed banks, if the ministerial panel finds that the merger is going to create a strong bank, it will not let it go for want of fund shortage, the sources said, adding that acquisition will come at a cost.

"First, the merger proposal should come from the board," said a source, who did not want to be named.

"If the Alternative Mechanism finds the match viable, the finance ministry could provide capital support to the acquiring bank if there is a shortfall," he said.

Sources said the government is keen that at least one merger proposal reaches a logical conclusion by the end of the current fiscal, which is next March-end

Finance Minister Arun Jaitley, after the Cabinet decision last week, had said that the government has not set any target for consolidation.

There are now 20 public sector banks (PSBs) other than SBI. These state-owned banks are grappling with Rs 6 lakh crore worth of nonperforming assets (NPAs) or bad loans, which is about 75 per cent of the total distress.

After in-principle approval for consolidation, the banks would take steps in accordance with the law and Sebi requirements. The final scheme will be approved by the Cabinet.

An official source said: "It is not necessary that a larger public sector bank should overtake a small or mid-size lender. If there is synergy, two or three banks can merge to create a bigger and stronger entity so that the dependence on public exchequer is minimised."

Earlier this year, the government had approved the merger of SBI's five associate banks with itself. In March, the Cabinet also approved the merger of Bharatiya Mahila Bank (BMB) with SBI.

Five Associates and BMB became part of SBI on April 1, 2017, catapulting the country's largest lender to among the top 50 banks in the world.

State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP) and State Bank of Travancore (SBT), besides BMB, were merged with SBI.

With the merger, the total customer base of the SBI reached around 37 crore with a branch network of around 24,000 and nearly 59,000 ATMs across the country. The merged entity began operation with deposit base of more than Rs 26 lakh crore and advances level of Rs 18.50 lakh crore.

SBI first merged State Bank of Saurashtra with itself in 2008. Two years later, State Bank of Indore was merged with it.

Consolidation of PSU banks remains a work-in-progress

MUMBAI: ECONOMIC TIMES 30 8 2017

It was in the budget speech on February 28, 2005 that consolidation of Indian banking industry was probably put forth for the first time by someone who mattered in the government. The then finance minister P Chidambaram, in a different context of acquiring size to match global banks, signalled the government is keen on state-run banks' merger.

More than a decade after, this month, Prime Minister Narendra Modi’s Cabinet has given a go ahead to banks to come up with plans by themselves to consolidate the 21 entities based on the needs of individual banks. As matters stand, government has said it wouldn't force the hands of banks.

Which bank would set the ball rolling? The first casualty of any merger is the top management of one of the banks. In this context, it is difficult to see any lender taking the first step and see his crown go missing.

"Over five years back it was suggested that bank boards should come together and plan what should be done, but not a single bank has come so far. So a nudge from the ministry is needed," said Kuntal Sur, head of financial services at PwC, a consultant.

About seven banks, including IDBI Bank, Central Bank of India, Indian Overseas Bank, UCO Bank, have lost loans market share over the year. Six government-owned banks, including Dena Bank, Central Bank of India, are under the RBI prompt corrective action watch after their financials deteriorated. Sixteen of 21 PSU banks have their capital ratio close to regulatory minimum with the peril of breaching it. Some of the state-run banks see the writing on the wall.

"There is an opportunity because potentially there are some reasonable banks," said Ravi Venkatesan, chairman, Bank of Baroda. "They may not be in the strongest shape but they all have capabilities, they have customers, they have geographical presence. May be in two years' time they may not be available. Somebody else may pick it up and then you lose the opportunity to grow inorganically."

There's no hard and fast rule on these mergers. But there are broad parameters that banks may take up. With not much product differentiation between state-run banks, the need to bridge geographical gaps, inability to raise capital and the ballooning bad loans are the factors that could be pivot of their plans.

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THE POWER BRIGADE

BANK	MCAP	GNPA	CAR
SBI	2.4 lakh cr	1.88 lakh cr	12.85%
BoB	33191 cr	46,173 cr	12.31%
INDIAN BANK	14106 cr	9653 cr	13.58%
VIJAYA BANK	7066 cr	6382 cr	12.73%

THE SURVIVORS

BANK	MCAP	GNPA	CAR
PNB	30834 cr	57721 cr	11.64%
BANK OF INDIA	17021 cr	51019 cr	12.38%
CANARA BANK	20233 cr	37657 cr	12.61%
UNION BANK	9394 cr	37286 cr	12.01%
SYNDICATE BANK	5934 cr	20184 cr	12.30%
OBC	4348 cr	24409 cr	11.64%
ALLAHABAD BANK	5497 cr	21032 cr	11.61%
ANDHRA BANK	3593 cr	19428 cr	11.98%
CORPORATION BANK	5351 cr	21712 cr	10.62%
PUNJAB & SIND BANK	1962 cr	6693 cr	12.43%
J&K BANK	4591 cr	5640 cr	11.10%

THE SEVEN LEMONS

BANK	MCAP	GNPA	CAR
IDBI	11585 cr	50173 cr	10.92%
CENTRAL BANK	15274 cr	31398 cr	9.61%
IOB	5658 cr	35453 cr	10.64%
UCO BANK	4920 cr	25054 cr	9.69%
BANK OF MAHARASHTRA	3160 cr	18049 cr	11.08%
DENA BANK	2464 cr	12994 cr	11.39%
UNITED BANK OF INDIA	2889 cr	12164 cr	10.35%

Government's reluctance or inability to throw capital forever without banks showing any improvement in their finances probably may be the key reason for the latest drive.

"After a decade of banks' public listing, there is a prevailing sense that the purpose of being listed got defeated as most of the banks do not have the ability to raise resources of their own," said former Union Bank of India chairman Debabrata Sarkar. "How long would they bank on government capital? It's difficult for the government to keep on pumping in funds."

In the Indian context, mergers historically were a bail-out tool. The outcomes have been bitter. The forced merger of the failed Global Trust Bank with Oriental Bank of Commerce in 2004 had been a drag in the latter's balance sheet for four years. It was designed to protect depositors after mismanagement in GTB led to Rs 272-crore loss in 2003-04 and one-fifth of the loans turning bad. The merger ended up being bad for shareholders.

"Consolidation should be done keeping in mind the interest of minority shareholders and bring in greater autonomy for banks," said former RBI governor Duvvuri Subbarao.

But this time around it is aimed at bailing out public sector banks themselves. There is an increasing feeling that so many banks are not serving any purpose and the job of inclusion and credit disbursal could be done by a few stronger banks.

Furthermore, weak state-run banks saddled with bad loans are unable to invest in technology which is driving banking now. That is leading to tremendous market share losses from which they might find it difficult to recover. "The weaker banks are losing market share (and) that is a good thing," RBI governor Urjit Patel had said in a speech.

"The stronger banks are gaining market share, which is a good thing, particularly the private sector banks. In a way, it is working; those who need to shrink are shrinking."

Agglomeration of public sector banks also would help from a scale perspective. Public sector banks are the dominant segment of India's banking system, holding around 74% of all deposits. However, with the exception of State Bank of India, none of the other public sector banks is large enough to have a competitive advantage.

While no one from either the government or the regulator has said how to go about it, investors, analysts, credit rating companies have all thrown their ideas on how to proceed. The prominent among them is that how a certain category of state-run banks cannot survive without government capital even for a year should be the first to be merged. These are IDBI Bank, Central Bank, Indian Overseas Bank, UCO Bank, Bank of Maharashtra, Dena Bank and United Bank of India, which some investors call the "seven lemons".

The ones that have the financial strength, like Canara Bank and Bank of Baroda, should go ahead and buy based on their geographical needs since there is nothing much that differentiates between many of these banks in terms of uniqueness. SBI is kept out since it is yet to digest the five associates and the Bharatiya Mahila Bank it recently swallowed.

There are about a dozen of them which are also in a bad shape, but, analysts feel, would be able to survive with some amount of capital and a recovery in the economy. "You should let certain banks die, you should have the boldness to cut the flab, reduce staff and branches," said former governor Subbarao.

Banks wary of Modi government's merger plan for fear of loss of brand name

NEW DELHI: ECONOMIC TIMES .DHEERAJ TEWARI

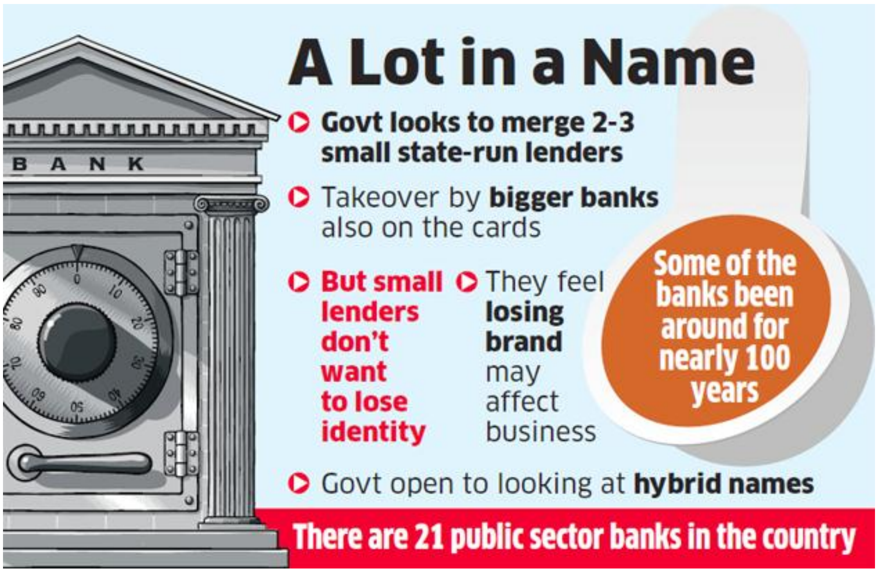
The government is looking at consolidation of at least two state-run banks in this financial year, but some of the lenders identified for merger or takeover by bigger entities have expressed serious reservations on their identities being subsumed in the process.

The target banks are keen that their names survive the consolidation and they continue to have a strong role in business operations, officials said. Earlier this year, four state-run banks – Syndicate Bank, Canara Bank, Vijaya Bank and Dena Bank – made presentations to the finance ministry on their consolidation plans.

"We have worked out some combinations. This involves a larger bank taking over two smaller entities.

Also, there is a case for merging two smaller but strong banks. We can look at some hybrid names which retain characters of the both banks," said a government official, who did not wish to be identified.

The official cited the case of the merger between Centurion Bank and Bank of Punjab that led to the creation of a new entity, Centurion Bank of Punjab, which later merged with HDFC Bank in 2008.



Senior executives of the banks being considered for consolidation have told the finance ministry that the brand names of the lenders have deep-rooted association with their borrowers and the loss of brand names could potentially affect business. Vijaya Bank, for instance, was set up in 1931. Syndicate Bank, set up in 1925, was earlier known as Canara Industrial and Banking Syndicate Ltd.

Experts, however, said the merger exercise should not be delayed only because of brand issues.

"These are state-run lenders. The borrowers are aware of this and there is no possibility of losing business just because a lender reinvented its brand name," said MP Shorawala, a former independent director with Central Bank of India. "We already have a successful example in case of Axis Bank."

In 2007, UTI Bank rechristened itself as Axis Bank. "The idea was to get a grasp on the issues which could come up during the merger exercise," the official cited earlier said, adding that some of the factors taken into consideration for merger are the business mix, the information technology platform that the banks are operating on and the geographical spread.

In April, State Bank of India absorbed five of its associate lenders and Bharatiya Mahila Bank, creating a larger bank that accounts for a quarter of all outstanding loans. There are 21 state-run banks in India.

In June, after reviewing the quarterly performance of public sector banks, finance minister Arun Jaitley said the government was "actively working" towards consolidation but did not share any details, stating this was price-sensitive information.

The government is also undertaking a simultaneous exercise to assess the capital requirements of state-run banks. "We are waiting for the first quarter results.

Once that happens, we will allocate further capital based on their requirements," Jaitley had said at the time.

While the government has already allocated Rs 8,000 crore — the spillover from the previous fiscal, this year, it plans to provide another Rs 10,000 crore by way of capital infusion.

Consolidation to hit hiring in public sector banks

G NAGA SRIDHAR/ NS VAGEESH / BUSINESSLINE 30 8 2017

HYDERABAD/MUMBAI, AUGUST 29:

Recruitment for bank jobs will be hit badly due to the proposed consolidation of public sector banks (PSBs), and a few banks have already put their fresh hiring plans on hold.

Last week, the Cabinet cleared a proposal for consolidation of PSBs the complete details of which are yet to be spelt out clearly.

The probationary officer/management trainee recruitment for vacancies to be filled in 2018-19 has already been impacted going by the data of the Institute of Banking Personnel Selection (IBPS), which is a common recruiting agency for officers in the 20 participating banks.

In the recruitment to be conducted this year, **seven banks have indicated zero hiring. Four others have not reported any intention to recruit yet.**

These include Punjab National Bank, Oriental Bank of Commerce, Punjab and Sind Bank, United Bank of India, Indian Overseas Bank, Syndicate Bank, Indian Bank, IDBI Bank, UCO Bank and Vijaya Bank.

"**We expect the recruitment to come down or be delayed considerably because of the consolidation move**, the impact of which is already being seen," CS Vepa, Director, National School of Banking, told BusinessLine.

A senior executive of PNB said on condition of anonymity that the **next two years could see up to a 50 per cent fall in fresh recruitment** as banks will undertake reconciliation of headcount and rationalisation of branches.

In the last two years, 68,000 to 70,000 vacancies have been filled up in PSBs, including in SBI.

According to C.H Venkatachalam, General Secretary, **All India Bank Employees Association,** the developments after consolidation of State Bank of India are a case in point. "There are 7,000 branches that are being closed after SBI's consolidation. This will be more in the case of other nationalised banks as they have a thicker presence in many areas than SBI. Their **consolidation will surely hit recruitment of clerks and officers in a big way**," he said.

According to the first quarter numbers of SBI, total branches of itself and its associate banks were 24,017 as on March 31, 2017. The number has come down to 23,423 by June 30. And, the bank has indicated that 30 per cent of staff will be redeployed.

Popular

The popularity of bank jobs among job-aspirants can be seen by the huge numbers who appear for the recruitment exams.

The number of candidates who registered for the common written examination for officer cadre posts in PSBs conducted by the IBPS in 2016-17 went up by about 20 per cent at 19.67 lakh, from 15.76 lakh in the previous year.

BE A PART OF THE HISTORIC MORCHA TO PARLIAMENT ON 15TH SEPTEMBER, 2017

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AIBEA THIS DAY – 31 AUGUST	
1954	Central Labour Minister Shri V V Giri resigns against cabinet decision to alter the LAT Award.
1954	88 days strike in Parur Central Bank concludes.
1995	One day strike by AIBEA and other Unions against discrimination and double standards by IBA- 6th Bipartite Settlement, Relativity Struggle.
2007	Morcha to Parliament AIBEA-AIBOA- one crore signatures submitted to Prime minster on Banking reforms credit polices & health of the Industry ,

ALL INDIA BANK EMPLOYEES' ASSOCIATION

Central Office: PRABHAT NIVAS

Singapore Plaza, 164, Linghi Chetty Street, Chennai-600001

Phone: 2535 1522 Fax: 2535 8853, 4500 2191

e mail ~ chv.aibea@gmail.com

Web: www.aibea.in