AIBEA's Banking News

1 SEPTEMBER 2017

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Going to NCLT and filing petitions against loan defaulters under Insolvency and Bankruptcy Code is the way to teach a lesson to the defaulters. They must repay the loans or leave the business.

- **Government**

This will result in huge haircut for the Banks

- **Reserve Bank of India**

NCLT route will not help the Banks. Rather, it will help the defaulting borrowers. Banks will be forced to provide huge amount for these loans.

- **AIBEA**

Recent corporate debt resolution:

Debtor : Synergies-Dooray Automotive's total dues of Rs 900 crores

Creditors to get Rs.54 crores as settlement ! Doorway to pay Rs. 20 cr. Upfront and balance 34 cr. In 5 years .

That is just 6% of the total debt.

12 corporate companies owe Rs. 2,53,729 crores to Banks. Banks are advised by RBI to go before NCLT to realise this amount. Wait and see, how Banks will lose heavily.

The 1st case under new bankruptcy code should have Modi government worried

Bloomberg : Aug 30, 2017, ECONOMIC TIMES

If the very first resolution of corporate debt distress by India's national company law tribunal is any indication, lenders should probably just write off their bad loans. With a recovery rate of 6 percent, why even jostle to get on creditor committees or pay fat legal bills?

That's the uncharitable conclusion to draw from the **Rs 54 crores** ($1.6 million) **that creditors will retrieve from Synergies-Dooray Automotive's total dues of Rs 900 crores,** according to tribunal documents. Worse, Synergies Castings Ltd., which acquired Synergies-Dooray, **need pay only Rs 20 crores upfront**; distressed-debt investors including Alchemist Asset Reconstruction Co., Edelweiss Asset Reconstruction Co. and Millennium Finance Ltd. will get the remaining **340 million rupees over five years.**

Both the Indian government and the central bank should view this outcome with alarm. They've coaxed state-run banks to push 12 large firms, which between them have non-performing obligations of $37 billion, through the same insolvency process. If the lenders manage to get 30 cents on the dollar, their take will be $11 billion. But if the payoff is only 6 percent, then the $30 billion taxpayers' bill for recapitalizing the banks will rise by another $9 billion. And that's for just these dozen accounts.

For debtors who are wondering how they, too, can get such generous settlements, BloombergQuint has a primer. The critical step is to make sure you have another company, GoodCo, which you can use to buy out as many as possible of the original creditors of your overstretched BadCo at a discount. Transfer those obligations to a financing firm for free, and declare bankruptcy for the dying company.

Any holdouts among the original lenders -- or funds they've sold their claims to -- are at a disadvantage because your chosen financier is technically unrelated to GoodCo or BadCo. It, therefore, has the votes to control the creditors' committee. GoodCo can now offer to buy out the insolvent entity. Holdout lenders may cry foul, but the new financier who's getting something for nothing will approve everything. Hey presto, distress resolved.

It's not known what Alchemist paid to buy its portion of the Synergies-Dooray loan from JPMorgan Chase & Co. The loan was originally made by HSBC Holdings Plc. Edelweiss got its share by buying out Export-Import Bank of India's claim for an undisclosed sum.

What we do know is that Millennium only became the biggest creditor to the bankrupt company when, just before the insolvency filing, Synergies Castings -- the rescuer -- assigned it the Dooray debt it had bought from State Bank of India, IDBI and ICICI Bank Ltd. Without this maneuver, Millennium wouldn't have had a seat at the creditors' table.

Passing the Parcel

Edelweiss argued that Synergies Castings, a related party to Synergies-Dooray, assigned its claims on the insolvent debtor to Millennium to influence voting rights on the creditors' panel.

Original Creditor	Amount (Rs. Mln)*	Subsequent Creditor	Final Creditor
IDBI	745.7	Synergies Castings	Millennium
ICICI	663	Asset Reconstruction Co. (India)/Synergies Castings	Millennium
EXIM Bank of India	183.6	-	Edelweiss
State Bank of India	252.8	Synergies Castings	Millennium
Indian Overseas Bank	98.9	Synergies Castings	Synergies Castings
Andhra Bank	83.5	Synergies Castings	Synergies Castings
HSBC	95.2	JPMorgan Chase	Alchemist

Source: NCLT documents
*As of March 2007.

The counter-argument is that if Dooray had gone into liquidation, 1,500 jobs at the aluminum alloy-wheel maker would have been lost and creditors would have received Rs 7 crores -- or less than 1 percent of the original claim. So a 6 percent recovery rate isn't the worst outcome, but it's definitely sub-optimal.

If this becomes the norm, and owners who drive businesses into the ground continue to enjoy control over assets, it won't take long for lenders and vulture funds to get disillusioned with India's new bankruptcy regime.

BANKS BACHAO – DESH BACHAO

SAVE BANKS – SAVE INDIA

MORCHA TO PARLIAMENT

15TH SEPTEMBER, 2017

CLARION CALL FROM UNITED FORUM OF BANK UNIONS

1.	Bhushan Steel	44,478
2.	Bhusan Power and Steel	37,248
3.	Lanco Infra	44,364
4.	Essar Steel	37,284
5.	Alok Industries	22,075
6.	Amtek Auto	14,074
7.	Monnet Ispat	12,115
8.	Electrosteel Steels	10,273
9.	Era Infra	10,065
10.	Jaypaee Infratech	9,635
11.	ABG Shipyard	6,953
12.	Jyoti Structures	5,165
		2,53,729 Cr

OUR DEMAND

START TOUGH MEASURES TO RECOVER THESE LOANS

STOP THE DAYLIGHT ROBBERY OF PEOPLE'S MONEY

BE A PART OF THE HISTORIC MORCHA TO PARLIAMENT

AIBEA - AIBOA

PSU Bank Consolidation:
The Government's Gameplan

BLOOMBERG QUINT 23 8 17

Addressing the press after the conclusion of Wednesday's Union Cabinet meeting, Finance Minister Arun Jaitley said that the government had approved the setting up of a ministerial panel which will clear any proposals of mergers between state-owned banks. The merger proposal, however, will need to come from the banks themselves, Jaitley said, making it appear as yet another statement of intent to consolidate India's large but stressed public sector banks.

Jailtey's comment masked behind-the-scenes work on consolidation that has been going on for months now. The work will mean that some consolidation is likely within the current year.

Public sector banks are already in talks for amalgamation and the first such merger can be expected in this financial year, a senior government official told reporters on condition of anonymity. Consolidation will reduce credit risk and make state-owned lenders more competitive, the official added. The eventual decision would be based on commercial considerations, the official said.

There are presently 22 state-owned lenders in the country. This includes J&K Bank, which is owned by the state government, and State Bank of India, which is governed by a separate Act. Any consolidation in the space is, hence, likely to be focused on banks other than these two.

Banks will identify potential candidates for merger and inform stock exchanges, said the official quoted above. This would stem any criticism that the government is pushing mergers on banks even though they are governed by individual boards who are meant to decide on commercial matters.

The government being the largest shareholder, which also has a board seat, can still influence the decision, Pradeep Kumar, former managing director of State Bank of India told BloombergQuint.

"What I believe will happen is that all of these banks have representatives of the government on their boards, I think the nudge will come from there," said Kumar while adding that the suggestion that the decision is being left to bank boards is a 'facade'.

I strongly believe that left to the managements, no management is going to suggest a merger. At the present time, they are all too busy battling bad loans. Pradeep Kumar, Former MD, SBI

Under the new mechanism proposed by the government, once a bank proposes a merger, a committee of ministers will look into it. The composition of the committee would be decided by the Prime Minister, Jaitley told reporters.

The committee will examine the initial proposal of banks on share valuation, share swap ratios and will take into account the view of minority shareholders, said the official quoted above. The Reserve Bank of India will also be part of the consultations, added the official.

Open To Merging Large Banks

While the government has given no hints on which banks will be part of the consolidation process, the official quoted above suggested that all options are open. This includes a merger between two large lenders if it makes commercial sense.

Most analysts have speculated that a merger would likely take place between a large and a small bank or regional-focused lenders.

No matter what the merger combination, it won't be an easy run for banks.

If you see the NPA (non-performing asset) ratios, everyone seems to be on the same boat. Even capital wise, only a few lenders are relatively comfortable. The parameters we are discussing right now are too broad and we cannot have a proper plan just based on these. We will wait for more clarity from the government. Rajkiran Rai, MD And CEO, Union Bank of India

Shares of public sector banks rose on the news of a renewed push towards consolidation with the PSU Bank Index gaining 2 percent in trade on Monday. Long term upside from the merger plan, however, will be limited, Manish Ostwal, senior research analyst at Nirmal Bang Securities told BloombergQuint.

"I don't see a significant premium being paid for the smaller banks so the minority shareholders should not play the merger theme," said Ostwal who remains negative on PSU banks.

CPI opposed to mergers, amalgamations in banking system: Reddy

August 27, 2017 | PTI / BUSINESSLINE

The consolidation in the banking sector would hurt the social obligations of state-owned lenders, CPI General Secretary S Sudhakar Reddy said.

CPI is "totally opposed" to mergers and amalgamations in the banking system and it supports the agitation by bank employees who plan to intensify their protests in the coming months, Reddy told PTI here.

"**As banks grow in size by mergers and amalgamations, their social responsibility would decrease**. **They will give more loans to corporate companies** to reduce burden.That is, they may feel that it is better to lend to a corporate company instead of having 10,000 accounts... It is these corporate companies who are hurting (banks)," he claimed.

The loans distributed to farmers, self-employed and others as a social responsibility would decline in the wake of mergers and the sense of belongingness towards regional banks would cease to exist, he said.

The CPI leader claimed that loans of corporates to the tune of Rs 2.56 lakh crore have been waived off "in the last few years". He alleged that the bad loans waived off are less for the poor in comparison to the corporates.

CPI had supported the recent strike by bank staff and it will support them in the agitation proposed to be held in October, Reddy said.

"The volume of bad loans and other losses is shown to be small in the profit statements of banks," he claimed.

Alleging that the recovery process discriminates against ordinary people, Reddy said, "**In case of ordinary citizens, banks auction not only the property of the loanee but also the property of the person who provided collateral security, but if a private company defaults, action is taken only against the firm and its associates are not touched**."

Why Merger of Public Sector Banks is not Easy

Aug 30, 2017

BANKERS' CLUB

Even though the Government has given its in principle approval for merger of public sector, the merger process will not be an easy one. Merging such huge banks with huge infrastructure and manpower will have many roadblocks. Let's see why merger of public sector banks is not easy.

1. Human Resource Issues

This is not just merger of banks but merger of a huge manpower consisting of lacs of people from diversified culture, environment and places. It is human nature to resist to change. And if you are asked to change after 20-25 years, that is really difficult. Integration of staff in new merged entity will be a tough task. There will be issues on Seniority, promotions, transfers etc.

2. Clash of Cultures

Merger of public sector banks cannot be successful if it is looked into only on papers without taking into account people and their culture. Not only financial fit is important but cultural fit is of prime importance for merger to be success. Thorough communication and ensuring that employees are ready to adapt to change is very important.

3. Lack of commitment of Management

Commitment of management of bank in the merger process is the key to success, which seems difficult in public sector banks. Co-operation of senior management of smaller bank will be difficult.

4. Opposition by Staff Unions

Government will have to take the employee unions into confidence and give assurance that this merger is not first step towards privatization of banks. **AIBOC has condemned the government's idea. AIBEA said that this is a risky.**

Staff Unions of Banks will also oppose the idea because many unions of small banks will lose their identity and consequently leaders of the unions will also require to find place for themselves in bigger unions. Another drawback for unions is that many representative of employees on board will lose their posts.

5. Information Technology related issues

Today Banks are completely dependent on Information technology, which is an advantage. But, different banks have different IT solutions from different service providers. For example IFSC Code and MICR etc, which are branch and bank specific will need to be harmonized and communicated to customers. Not just the CBS but Banks use various kinds of softwares for other purposes like loan processing, customer lead generation, auditing, monitoring etc. Migration of data will be painful job and require a lot of care because data loss will be costly.

6. Harmonization of Systems, procedures, goals, business strategies

Different banks have different systems, procedures, policies, plans, business strategies and this needs to be harmonized. Imposing all the policies and procedures of one bank on the employees of other bank will lead to inefficiency and clash. The business strategies will need to be re-aligned for the new entity.

7. NPA situation may worsen

It is expected that NPA situation will improve with the merger of public sector banks, which is one of the argument given by government in support of merger. But the situation may worsen because during transition period and merger process, recovery will come to a halt. There will be no owner for the task. And in the merged entity also, there will be blame game for the NPAs of other bank.

5. Capitalization

Bigger Banks will require big capital infusion. Smaller banks struggling with high NPAs are already at alarming level for maintaining the Capital Adequacy and their merger into larger banks to create bigger banks will require the capital.

6. Hardship to customers

Customer will face the hardship atleast during the merger process and initial years, especially customers of the merged banks. Customers of those closed branches will have to find their new branches and establish the contact with the new branch again, they may not feel the same treatment as that in the old branch. The particulars of accounts will change like IFSC, MICR etc., which the needs to be properly communicated to customer, who will also need to change these details with various persons.

The case of merger of associate banks with SBI was different from the merger of other banks firstly because the associate banks were under the control of SBI and secondly this was known to SBI and associates well in time and they had time to harmonize the systems.

Russian bank picks employees thanks to robot recruiter

Vera checks CVs and calls candidates that fit the criteria for a given position at the bank.

The Ural Bank for Reconstruction and Development has made another step in the adoption of artificial intelligence (AI) solutions. The bank has entrusted the selection of its future employees to a robot recruiter named Vera.

Vera (a typical Russian name, which means "Faith") checks the CVs of the applicants and then calls the candidates that fit the criteria for a given position. The first weeks of testing of the new system have shown that it may handle up to 90 calls a day, about two times more than a typical, human employee in the same role does.

The tests of the new solution continue and in several months the bank will decide whether Vera will get a permanent contract.

The rationale behind Vera's deployment is that it helps optimize the work process – the heavy monotone tasks are devoted to robots, whereas human employees are allowed to devote their time to tasks that require non-standard solutions and creative thinking.

Russian banks have been active in embracing robotics. One of the most notable examples is Sberbank. In January this year, the bank said it plans to make 3,000 of its employees redundant, as it seeks to replace them with a robot lawyer. There is more gloomy news for the human staff at the bank, as Herman Gref – CEO and Chairman of the Executive Board of Sberbank, has unveiled further plans for workforce reduction. The number of employees in back office roles at the bank will be reduced 12 times by 2021.

The adoption of AI systems by banks is not necessarily related to workforce size reduction. In fact, many see such moves as an opportunity to elevate the quality of human work. In August, digital Nordic bank Nordnet announced the hiring of its first digital employee – Amelia, who will work side by side with her human colleagues in the customer relations department. Commenting on the addition of Amelia to the bank's team, Nordnet's CEO Peter Dahlgren pointed out that it is AI that is capable of meeting the individual needs of each customer and this has been the primary reason for investing in the adoption of Amelia. Furthermore, he noted, Amelia's colleagues will be able to dedicate more time to activities that have more value. As a result, "humans can focus on what humans do", he said.

AIBEA THIS DAY – 2 SEPTEMBER	
1946	**Strike notice served by Unions in 30 Banks at Bombay leading to appointment of H N Devatia Tribunal.**
1982	**General Council concludes at Hyderabad.**

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