AIBEA's Banking News

30 DECEMBER, 2017

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Centre pumps Rs.7,577 crores into six public sector banks

K R SRIVATS NEW DELHI, DECEMBER 29: BUSINESSLINE

BENEFICIARIES

- **₹2,257 crore** Bank of India
- **₹2,729 crore** IDBI Bank
- **₹323 crore** Central Bank of India
- **₹243 crore** Dena Bank
- **₹1,375 crore** UCO Bank
- **₹650 crore** Bank of Maharashtra

Coming to the rescue of ailing banks, the Centre has pumped in capital of Rs 7,577 crore in various weak public sector banks.

This capital infusion is timely and would help these banks shore up their capital adequacy as they close the books for the December quarter, said a banking industry observer.

The government has released Rs 2,257 crore to Bank of India, which was recently placed under prompt corrective action by the Reserve Bank of India. The other big beneficiary of the latest capital infusion round is IDBI Bank, which has received Rs 2,729 crore, sources said.

While Central Bank of India has got capital support of Rs 323 crore, Dena Bank has got capital support of Rs 243 crore from the government.

UCO Bank, another weak public sector bank, has got capital support of Rs 1,375 crore. Bank of Maharashtra has received capital support of ☐650 crore, sources said.

Reacting to the government move to release capital to these six public sector banks, the **All India Bank Employees Association (AIBEA)** General Secretary CH Venkatachalam expressed confidence that **this capital support will help mitigate the immediate problems faced by these weak banks.**

"**The government should also look at measures other than the Insolvency and Bankruptcy Code (IBC) route** to enable banks to recover their dues," Venkatachalam told *BusinessLine*.

Bank failures in a time of 'bail-ins'

BANDI RAM PRASAD in BUSINESSLINE 30 12 2017

Not too big to fail:
Big banks fell like nine pins in the US and EU post 2008

The implications of creditors picking up the tab when a bank fails can be quite different in India, vis-a-vis the global experience

Bank resolution all through was done through by the bail-out mechanism — of the Government using taxpayers' money. The regulation now is working towards shifting this burden to shareholders and creditors.

According to an estimate of the IMF, contingent liabilities across developed and developing countries during 1990-2014 was found to be highest in the financial sector, with 91 episodes and average fiscal cost amounting to 9 per cent of GDP, which rose to 57 per cent in some cases.

The bail-in policy, detailed in an EU directive (2014) is a "system which will ensure that taxpayers will be last in the line to the pay the bills of a struggling bank". The bail-in tool set out in the directive would require shareholders and bond-holders to take the first big hits.

The Dodd Frank Act of the US (2010) made a provision "that the losses of any financial company placed into receivership will not be borne by taxpayers, but by common and preferred stockholders, debt holders, and other unsecured creditors .."

Much of the bail-in action is seen in the EU, but the experience so far is not very inspiring. Initially some EU countries were hesitant about this plan. Next came Novo Banco that was created in 2013 as a 'good bank' by splitting Portugal's Bank Espirito Santo, by which junior creditors were made to bear all the losses transferred to a 'bad bank'.

However, by 2015, Novo Banco itself had to be rescued by the government. Also much of the bail-in experience is evident in the ailing economies of the EU. Its still to be seen how the big ones will do it when the situation demands.

Chilling experience

An incident that created a chill across the world was that of Cyprus, with the biggest bail-in ever, that spooked bank depositors when all deposits including those below €100,000 (the legal deposit guarantee limit) were faced with steep haircuts and losses.

However, after public uproar and frantic negotiations, retail deposits below €100,000 were spared.

In November 2015, four smaller Italian banks were bailed in by conversion of subordinated debt of the banks that turned highly controversial since many retail investors had subscribed to these instruments believing they were purchasing safe assets.

Though instances of bank bail-ins are seen in Spain, Greece and Portugal, it must be said that except in Denmark and Cyprus and to some extent in Italy, senior unsecured debt holders and depositors were so far spared from bail-ins.

The Bank Recovery and Resolution Directive (BRRD) under the Single Supervisory Mechanism (SSM) adopted by the European Parliament in April 2014, makes it mandatory to bail-in shareholders and creditors for a minimum amount of 8 per cent of the liabilities and funds that may be injected into a bank under resolution with certain safeguards. The principle of No Creditor Worse Off (NCWO) is to ensure that shareholders and creditors shall not receive a lesser compensation in resolution than what they would have received if the bank had put into liquidity.

Comparative study

The NCWO principle is assessed on the basis of a comparison between the proceeds received by shareholders and creditors according to the resolution decision (based on independent valuation of the bank) and the theoretical proceeds those shareholders and creditors would have received under liquidation.

In addition, estimates are made on ex-ante (annualised costs associated with the likelihood that a solvent bank might fail) and ex-post (expected costs that might arise, should a bank fail) basis. Then there were certain exclusions: to keep away liabilities (a) that are not possible to be realised in reasonable time; (b) that are necessary to keep them to carry certain critical functions; (c) whose writ downs or conversion may cause widespread contagion; and (d) that could lead to value destruction.

A legislation that is currently under consultation in India, The Financial Resolution and Deposit Insurance Bill 2017, carries the spirit of reducing the role of government in doling out relief for banks in distress.

However, there are certain differences in the landscape that need to be noted. Unlike the EU region where this law was put in place, it is the state that owns a major chunk of the banking system in India. Bank resolution costs in India remained relatively low as compared to many of the developed and developing countries. India's record in avoiding distress of financial institutions too is admirable. Much of the fear regarding the new legislation arises more of out trust and confidence issues which need to be addressed in right earnestness.

At the same time, it is also important to assess the readiness of India's economy and finance for this reform.

India is a capital-hungry country with its current institutional framework hardly matching the requirements of the real economy. The shortcomings of the public capital markets in resource mobilisation leaves the burden more on the banking system to finance the economy. Private and corporate debt markets are not that mature. Most of the population is not so savvy with alternative asset classes or trading in financial instruments; this makes them heavily reliant on the banking system for financial growth and protection. Lack of social security adds to the challenge.

Some contradictions

Then there are a few contradictions. Global debt has now reached almost thrice its GDP, much of it caused by the easy money polices of the central banks leading to increased vulnerability of financial institutions. Banks use myriad models of managing risk, yet are not effective in containing stresses and crises that continue to erupt with growing frequency.

Initial studies showed that bail-ins lead to increase in the spreads of credit default swaps. The key question that rises is what difference it would make whether it is the Government that does the bail-out or the shareholders and creditors who assume responsibility, when either will impact the economy or growth one way or another.

Delay in wage talks irks bank unions

VINSON KURIAN THIRUVANANTHAPURAM,

DEC 29: BUSINESSLINE

The United Forum of Bank Unions (UBFU) has voiced concern over the lag in negotiations for industry-level revision of wages and service conditions. The period of the 10th bipartite settlement and officers wage revision came to an end on October 31, 2017, the UBFU said in a letter to the Department of Financial Services, Ministry of Finance.

CENTRE WRITES TO BANKS, IBA

Revision of wages and service conditions bacame due on November 1, 2017, C.H Venkatachalam, General Secretary, **All India Bank Employees' Association,** pointed out. The ministry had written to the individual banks and the India Banks' Association (IBA) as early as in January 2016 advising them to initiate the process and conclude negotiations prior to November 1.

This was followed up with reminders on August 24, 2016; October 1, 2016; December 21, 2016; March 21, 2017, August 22, 2017 and December 13, 2017. In response, the IBA had invited the UFBU and commenced negotiations on May 2, 2017. It was assured that the entire negotiations would be expedited in order to complete the process before November 1, 2017.

WAGE REVISION NOT DISCUSSED

During the last seven months since then, a number of meetings have been held and various non-financial issues discussed. But the IBA has not come out with any offer on the demand for wage revision. Despite repeated requests for an offer on which further negotiations can be held, the IBA has maintained a stoic silence.

The last meeting of the IBA's Negotiating Committee was held on October 27, when the UBFU was assured that it would convene shortly and come up with an offer. The UBFU requested the Centre that the IBA be advised to resume negotiations on the quantum of wage revision without further delay so that efforts can be taken to conclude the settlement at the earliest.

AIBEA THIS DAY – 30 DECEMBER	
1977	**Full Day strike: 3rd Bipartite struggle.**
2000	**24th Conference of AIBEA at Mumbai.Com. Former Prime Minster Chandrasekhar Inaugurates Maharashtra chief Minister Sri Vilas Rao Deshmuk Participates**

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