Bank consolidation: no major decision likely until late FY17

Human resource and work culture compatibility are challenges: official

SURABHI, BUSINESSLINE, NEW DELHI, MARCH 18:

The Centre will tread cautiously on the issue of merger and consolidation of public sector banks (PSBs) as there is no clear-cut mechanism in place for human resource management.

Sources involved with the process said the Finance Ministry is keen on reducing the number of PSBs to about 10 or less from the current 27, but cadre management and work culture of banks are an issue.
“The matter of consolidation of banks has been on the table for long. Following the Finance Minister’s announcement, an expert group is being set up to look into the issue. We have to make sure that the work cultures of the banks being merged are similar so that there are no legacy problems,” said a senior official privy to the development.

Official sources said that while it is easier to consolidate subsidiaries with their parents, as is being proposed for State Bank of India and its subsidiaries, doing the same for two individual entities will pose challenges.

**Unions oppose it**

“We are against consolidation. What is needed is to improve the efficiency of banks and strengthen their recovery process,” CH Venkatachalam, General Secretary, **All-India Bank Employees Association**, told BusinessLine.

**The union has called for a strike on May 25 against banking sector reforms.**

The merger of SBI with one or two of its subsidiaries will be looked into this fiscal, but any further decision will be made only after the expert group submits its report.


“It is unlikely that merger and consolidation plans in any of the other public sector bank will be actively pursued until the second half of 2016-17. Whether any merger will take place next fiscal is difficult to say,” said the official.

Finance Minister Arun Jaitley had earlier this month announced the government’s intent to pursue mergers and consolidation to improve the financial health of PSBs.

“What we need are strong banks than numerically a large number,” he had said at the end of a brainstorming session with public sector financial institutions.

“If government proceeds with its merger and consolidation plans, there will be more bank strikes,” Venkatachalam said.
Why consolidation of Indian banks is no cure to the ills

DR B YERRAM RAJU | 10/03/2016

Government would do well to promote development banks to fund infrastructure projects and relieve public sector banks as experience amply demonstrated that PSBs are not cut for that job of funding long-term projects with short term resources

Recently, Gyan Sangam (Intellectual Confluence), the second one after the formation of the present government, discussed ways to revamp the banking system at Gurgaon. It has not offered any better wisdom than loud whispers of consolidation of banks. Is consolidation of banks the right solution?

The messy Indian banking at the moment due to huge pile up of non-performing assets (NPAs) in public sector banks (PSBs) in particular, caused by more of funding long term infrastructure projects through short term resources, trying to seek a bail out through mergers and acquisition route, history would not spare the government.

Reserve Bank of India (RBI) Governor Dr Raghuram Rajan rightly warned recently that the merger move is risky without cleaning up the beleaguered banks’ balance sheets. Finance Minister Arun Jaitley hinted at the consolidation of unwieldy and economically weak state-run banks even as he
kept the door open for lowering the state's stake in them below 50%. He has also spread a red carpet to multi-national asset reconstruction companies (ARCs) providing scope for sale of distressed assets.

I recall what Thomas Koenig, Kansas City Fed Reserve President said on 8 September 2011 in an interview to Oklahoman – mega banks needed break up. He rightly felt that individual institutions should not grow to a size that would let the nation fail going by the experience of Penn Square Bank failure in Oklahoma. “The Oklahoma City bank's sketchy energy loans eventually led to the collapse of Chicago-based Continental Illinois, the largest bank failure in US history until 2008.” He did not at all support the theory of Fed Reserve ‘too big to fail’ in the aftermath of 2008 recession.

Banking Reforms Committee in India (Chairman M Narasimham, 1991), however, desired for creation of at least six mega banks in India. Attempts were made later to allow the size of ICICI Bank grew in the private sector and State Bank of India (SBI) in the public sector, grew through a few mergers and acquisitions. When there was a near run on the ICICI Bank in September 2009, the Government asked the SBI to pump in Rs400 crore and allow free operations on all the automated teller machines (ATMs) to give confidence to the customers and the RBI assured the economy that nothing went wrong with the Bank. The RBI in its Financial Stability Report (FSR) of June 2015 also identified these two mega banks as banks posing systemic risks along with four others.

Among the 38 mergers and acquisitions (M&A) since nationalisation of banks, a few posed severe problems. The inefficient New Bank of India merger with Punjab National Bank (both public sector banks) and takeover of the failed private sector bank – Global Trust Bank Ltd by Oriental Bank of Commerce, another PSB, took no less than a decade and over for makeover of balance sheets of the merged banks. In the case of former, human resource and cultural issues posed severe discomfort while in the case of the later, technology of GTB being the most sophisticated compared to that prevailing with the OBC the later took more than a decade to assimilate it.

Smooher among the takeovers was that of Bank of Madura Ltd with the ICICI Bank. Even the merger of a couple of associate banks with its parent, the SBI had problems in merger of hierarchy and scales of pay as also pension settlements for over a decade. No two merger formats had similarities.
In fact, the drivers of consolidation among banks should be synergies, efficiency, cost saving, and economies of scale. Proactive communication, organisation structure revamp, and appropriate human resource integration would smoothen the course to integration. Several Indian bank mergers in the recent past seem to belie these factors.

Some recent research studies into ICICI and SBI mergers 2008-10 point to least improvement in the share price on NSE and BSE, the return on assets, return on equity, earnings per share and net profits. Indian banks did not secure new customers post merger in most cases.

Quite a few of the PSBs, aping the west, went in for universal banking and incentivised cross-selling as a major business strategy. The incentives for such cross-sold products were so attractive that several executives could care little for the regular banking products and customer service.

Amidst domestic pressures, politics playing spoilsport on the PSBs, due diligence took a beating and global impacts added fuel to the fire in creating NPAs of over Rs6 lakh crore by the end of December 2015 requiring recapitalisation to a degree of Rs1.18 lakh crore. Government chose to pump in a meagre Rs25,000 crore in its latest Budget. This gave rise to the expectation of mergers and acquisitions as a possible route to come out of the capital vows.

It is not size that is the solution to the problems as much as good governance and the government maintaining arm’s length distance from the governance and management of PSBs. By the time, the Bank Board Bureau starts functioning, it may be six months from now.

Cleaning up the boards and balance sheets would depend upon the Bankruptcy Act’s effective implementation. It is past experience that such Acts requiring rules to be framed would take another minimum six months after receiving the President’s assent. Speed of action has always been a casualty in Indian governance and regulatory mechanisms and this shall be the key area of focus of the government.

It is also important that the big banks start becoming humble and learn lessons instead of becoming conglomerates of unwieldy nature. Banking basics and customer service can hardly be bargained. Government would do well to restart the Development Banks to fund infrastructure projects and relieve the PSBs from this window as experience amply demonstrated that
they are not cut for that job well due to their funding long-term projects with short term resources.

Simon Johnson, a former chief economist of International Monetary Fund (IMF) arguing in his Project Syndicate column on ‘the End of Big Banks’, strongly supports Kashkari’s viewpoint that the time has come for review of ‘too big to fail’ theory and breaking big banks would hold better financial stability in a fragmented world.

(Dr Yerram Raju Behara or Dr B Yerram Raju is a former senior executive of SBI and an economist and risk management specialist. The views expressed in the article are his personal.)

Small savings interest rates slashed
Investor returns will come down by 60-130 bps for the quarter from April 1

OUR BUREAU BUSINESSLINE NEW DELHI, MARCH 18:

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Interest rate for Q1 2016-17 (%)</th>
<th>Interest rate in 2015-16 (%)</th>
<th>Gross deposit (2014-15) (₹ cr)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Provident Fund</td>
<td>8.1</td>
<td>8.7</td>
<td>50,658.22</td>
</tr>
<tr>
<td>Kisan Vikas Patra</td>
<td>7.8</td>
<td>8.7</td>
<td>2,670.66</td>
</tr>
<tr>
<td>Sukanya Samriddhi Account</td>
<td>8.6</td>
<td>9.2</td>
<td>521.69</td>
</tr>
<tr>
<td>5-year Senior Citizen Savings Scheme</td>
<td>8.6</td>
<td>9.3</td>
<td>3,369.58</td>
</tr>
<tr>
<td>5-year National Savings Certificate</td>
<td>8.1</td>
<td>8.5</td>
<td>3,897.51</td>
</tr>
<tr>
<td>5-year Monthly Income Scheme</td>
<td>7.8</td>
<td>8.4</td>
<td>21,584.84</td>
</tr>
<tr>
<td>5-year term deposit</td>
<td>7.9</td>
<td>8.5</td>
<td>–</td>
</tr>
<tr>
<td>3-year term deposit</td>
<td>7.4</td>
<td>8.4</td>
<td>–</td>
</tr>
<tr>
<td>2-year term deposit</td>
<td>7.2</td>
<td>8.4</td>
<td>–</td>
</tr>
<tr>
<td>1-year term deposit</td>
<td>7.1</td>
<td>8.4</td>
<td>–</td>
</tr>
<tr>
<td>Post office savings account</td>
<td>4.0</td>
<td>4.0</td>
<td>110,312.27</td>
</tr>
</tbody>
</table>
Your small saving investments are will fetch lower returns starting April 1, with the Finance Ministry on Friday announcing revised interest rates for these schemes. The vastly popular Public Provident Fund will earn 8.1 per cent against the current rate of 8.7 per cent.

The new interest rates, which will be applicable for the first quarter of 2016-17 (April 1 to June 30), are 60-130 basis points lower, depending on the scheme.

The interest rate on Kisan Vikas Patra has been slashed to 7.8 per cent from the current 8.7 per cent and that on the five-year National Saving Certificate to 8.1 per cent from 8.5 per cent.

The rate on the five-year Monthly Income Scheme has come down to 7.8 per cent from 8.4 per cent.

The move, announced by Finance Minister Arun Jaitley last year, will help banks in the transmission of lower interest rates.

But the rate cuts will pinch the pocket of the common man, particularly retired people.

The Finance Ministry has also back-tracked on an earlier indication that interest rates on savings schemes for the girl child and for senior citizens would be left untouched as they serve “laudable social development or social security goals.” Rates for these schemes too have been reset. The interest rate on the Sukanya Samriddhi Account and the Senior Citizens Savings Scheme has been cut to 8.6 per cent each from the earlier 9.2 per cent and 9.3 per cent, respectively.

The interest rate on post office savings has been retained at 4 per cent.

“We have aligned the small savings interest rate more in line with the market. Bond yields over the last one year have come down sharply,” said a senior Finance Ministry official.

The next round of recalibration in small savings interest rates will be done on June 15 for the second quarter ending September 30.
Banks told to pay interest on SB account on quarterly basis

MUMBAI, MARCH 15: BUSINESSLINE

Here is some good news for savings bank depositors. They will earn slightly better returns on their savings bank (SB) deposits as the Reserve Bank of India has mandated that banks should credit interest on savings deposit at quarterly or shorter intervals.

Referring to RBI’s Master Direction on interest rate on deposits, Ashish Das, Professor of Statistics, IIT-B, said in the absence of any regulation on interest application frequency, till now most of the banks were paying interest on the SB deposits, that accounts for more than a quarter of the total deposit pie, at an interval of six months.

“Under the prevailing SB interest of 4 per cent per annum, the new regulation would benefit the SB depositors to the tune of ₹500 crore or more from the next financial year,” said Das in his report on “Interest on Deposits – Moving Towards Computing Standards”.

Though this is a major step in favour of the depositors, the Professor observed that it has left a disparity compared to loans.

For loans taken from the banks, the interest is computed at monthly rests. In other words, if a borrower defers payment of interest by two months, the banks charge two months’ interest on the delayed interest. Das felt that though the RBI has deregulated rates of interest on term deposits, SB deposits and loan accounts, it still regulates the interest application frequency on such products, disharmoniously.
The Professor said: “The regulator provides no rationale on why interest application frequencies on deposit accounts (quarterly or shorter intervals) are different from those for loan accounts (monthly intervals) which is to the benefit of the banks and detrimental to the interest of the borrowers and, more so, depositors.

“The RBI has a responsibility to bring in standards and transparency in interest application frequency, in the interests of the depositors.”

Das noted that the RBI has also left to the banks the method that they may adopt for computing interest.

“Absence of regulation gives banks the freedom to decide, in a non-transparent fashion, the effective annualised returns on deposits held by them. With this, the depositors are burdened with the problem of shopping among banks for the most attractive methodology used in their interest application and computation procedures,” he said.

He observed that depositors are neither capable to make such comparisons nor aware that such matters affect his return and their ignorance is a big asset for banks.

---

**AIBEA This day – 21 MARCH**

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>Bank Disputes referred to K T Tribunal.</td>
</tr>
<tr>
<td>2007</td>
<td>IBA &amp; UFBU – minutes signed on Pension option calculation other issues</td>
</tr>
<tr>
<td>2003</td>
<td>All India Strike – against Govt. Policies on Disinvestment, Privatization, Job Losses.</td>
</tr>
</tbody>
</table>

---

**ALL INDIA BANK EMPLOYEES’ ASSOCIATION**

*Central Office: PRABHAT NIVAS*

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

*Phone: 2535 1522, 6543 1566 & Fax: 2535 8853, 4500 2191*

*e mail ~ chv.aibea@gmail.com*