STATE BANK OF INDIA OFFICERS' ASSOCIATION

(BENGAL CIRCLE)

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Circular No. 13/2016 Date : 03.03.2016

To All Members (Please Circulate)

We reproduce hereunder the Circular No. 35 dated 03.03.2016 issued by General Secretary, All India State Bank Officers' Federation, the contents of which are self-explicit.

With revolutionary greetings,

Soumya Datta
(General Secretary)

To all our Affiliates / Members:

BANKS' BOARD BUREAU - A MOVE TO SELL THE PUBLIC SECTOR BANKS
IDBI BANK IS THE FIRST TARGET
CAPITAL STARVING PUBLIC SECTOR BANKS WILL FOLLOW

We reproduce hereunder the text of AIBOC Circular No.2016/12 dated 3rd March, 2016 contents of which are self-explicit.

(Y.SUDARSHAN)
GENERAL SECRETARY

TEXT

QUOTE:

A Committee to review the governance of Boards of Banks in India was constituted by RBI on **20th January, 2014** headed by Sri P. J. Nayak, former Chairman and CEO of AXIS Bank and former Country Head, Morgan Stanley India, Mumbai as Chairman of the Committee. The Committee was asked to go into the functioning and governance of the banks' Boards in India and review the RBI guidelines on bank ownership, ownership concentration and representation in the Board. **The Committee submitted its report on 12th May 2014. (What a great hurry).** Government of India convened a Gyan Sangam on 2nd & 3rd January, 2015 to provide backing/sanctity to these recommendations of the report. You are aware that our Confederation sought participation in the Gyan Sangam for presentation of our views on the retrograde recommendations of the committee which was denied to us on expected lines.

The following are the major recommendations of the Committee:

Transfer of ownership of Public Sector Banks to a Bank Investment Company (BIC) to be formed under the Companies Act and Government eventually to reduce its stake below 50%. This is recommended so that the PSBs will come out of CVC and RTI ambit. The Committee has given draft amendments to the Nationalisation Act in this regard.

The Committee also recommends constituting a Banks' Boards Bureau (BBB) for appointment of Directors including Chairman & Managing Directors, Executive Directors and other Directors and suggests a minimum tenure of 5 years for CMDs and 3 years for Executive Directors. The Committee intends to make the bank boards empowered with governance and oversight.

It recommends that the Government should cease to issue policy directions and the same should be done through RBI. It also recommends withdrawal of nominees of Government and RBI from Bank's Boards.
The Government has now decided to set up Banks' Boards Bureau (BBB) by appointing former CAG, Mr. Vinod Rai as its Chairman, thereby, starting the process of implementation of the recommendations of the Committee. As per the Committee's recommendation:

(Recommendation 5.1): …………….it would be desirable to entrust the selection of the top management of public sector banks during Phase 1 to a newly constituted Bank Boards Bureau (BBB). It is recommended that BBB be set up by an executive order of the Government and comprise three senior bankers chosen from among those who are either serving or retired Chairmen of banks, one of whom will be the Chairman of BBB. They would be bankers of high standing and the Government should select them in consultation with RBI. Where selections to top bank managements are proposed by BBB but not accepted by the Government, BBB will make a public disclosure. (Recommendation 5.2): The Chairman and each member of BBB should be given a maximum tenure of three years. During this period the transfer of powers to the Bank Investment Company (BIC) is envisaged and upon transfer to the BIC, tenure would cease. There will be no renewal of their contract thereby ensuring that BBB's autonomy and independence is not compromised. Their remuneration would be at least that of existing public sector bank Chairmen.

Hon'ble Finance Minister has declared during his budget speech that the Government is open to the suggestion to bring down Government's stake in PSBs below 50%. Hon'ble Minister of State for Finance in an interview to CNBC TV 18 has stated that the Government is considering consolidation of 27 PSBs so as to create world class banks.

The decision to set up BBB along with the above declarations of FM and MoSF give a clear indication that this Government is determined to reduce the role of PSBs in the economy and allow private capital to run these institutions. Probably the political climate is not conducive for the Government to establish Bank Investment Company which necessitates passing amendments to the Nationalization Acts by the Parliament. It is only a matter of time before BIC comes into existence.

As an Organization which believes that the banks should be in public sector so that the savings of the masses are not leveraged for the benefit of a few private corporates and for speculation, AIBOC condemns the move to establish BBB with the ulterior motive of privatizing the PSBs. **AIBOC opposes any such move and has launched agitation to save public sector banking.**

NPAs – A continuing problem: Today the PSBs are saddled with Non-Performing Assets which hits at the earning capacity of these Banks. A good number of banks has declared losses during the quarter ended December 2015 (not for the financial year). It is necessary to know that the NPA problem is not a new one. Ever since the prudential norms for income recognition and asset classification came into existence, the PSBs have been facing the problem of NPAs. When these norms were introduced, the privatization lobby in the country had written the obituary of PSBs. But it is to the credit of PSBs that they came out of the problem with a thumping success as can be seen from the figures below:

YEAR ENDED	GROSS NPAs				NET NPAs			
	PUBLIC SECTOR BANKS		NEW PRIVATE SECTOR BANKS		PUBLIC SECTOR BANKS		NEW PRIVATE SECTOR BANKS	
	Amount (in cr.)	% to Gr. Advances	Amount (in cr.)	% to Gr. Advances	Amount (in cr.)	% to Gr. Advances	Amount (in cr.)	% to Gr. Advances
2001	54672	**12.4**	1617	8.9	27977	6.7	929	3.1
2002	56473	11.1	6822	8.9	27958	5.8	3663	4.9
2003	54090	9.4	7232	7.6	24867	4.5	4142	4.6
2004	51538	7.8	5963	5.0	18860	3.0	2717	2.4
2005	47325	5.7	4582	3.6	16904	2.0	2353	1.9
2006	41358	3.6	4052	1.7	14566	1.3	1796	0.8
2007	38968	2.7	6287	1.9	15145	1.1	3137	1.0
2008	40595	2.2	10426	2.5	17836	1.0	4907	1.2
2009	44039	**2.0**	13815	2.8	21033	0.7	6253	1.3
2010	59926	2.2	14017	2.9	29375	1.1	5234	1.1
2011	74614	2.2	14541	2.3	36071	1.1	3448	0.6
2012	117800	3.3	14500	2.0	59300	1.5	3000	0.4
2013	165000	4.1	15800	2.2	90000	2.0	3900	0.4

[Source: RBI: Trends and Progress of Banking in India]

It could be seen that Gross Non-Performing Assets (GNPAs) in Public Sector Banks (PSBs) were as high as 12.4% and Net Non-Performing Assets (NNPAs) were 6.7% of gross advances in 2001. The corresponding figures for new private sector Banks were 8.9% and 3.1% respectively. From that position, PSBs could bring down the GNPAs to 2.2% and NNPAs to 1.1% by 2011. **In fact PSBs had done better than new private sector banks in NPA Management during the period 2008 to 2011**. Further there are several reasons for the deterioration of asset quality of PSBs ever since 2013.

Our economy being part of world economy has been affected by the slowdown caused by the sub-prime crisis in the West. Ever since the demolition of specialised institutions like IDBI and ICICI in the name of creating financial super markets, PSBs have been forced by the Government in power to finance infrastructure and manufacturing projects which have high gestation period while the private sector banks have shrewdly withdrawn from this area foreseeing the problems. The large projects in infrastructure, power generation etc. were also stuck due to policy paralysis and environment clearances. The net result is bulging NPAs of PSBs for which they have been blamed now. The regulator also remained a passive actor when these things were happening and encouraged postponing the problem in the name of loan restructuring and Corporate Debt Restructuring under which the corporate have been given huge concessions in interest and other charges. Today all of a sudden the RBI wants to clean up the Banks in the name of AQR which is claimed to be one shot remedy for the ill and the PSBs are forced to swallow the bitter pill as they only had ventured into the above mentioned projects. Government is not worried about the position and Budget speech was silent on the recovery measures. But when it comes to the serious question of capital infusion the provision is made for only Rs. 25000 Crores as against the much more required to keep the banks competitive in the growth of business leading to one the conclusion that either the Government wants to demolish these Banks or to leave it to private capital/FDI AND thereby privatise them.

WHAT WE EXPECT FROM THE GOVERNMENT TO DO IS:

1. **Strengthen recovery mechanism like DRT and SARFAESI by giving teeth to the laws and make recovery process faster and less time consuming.**
2. **Amend IPC to make willful default a cognizable offence with stern punishment**
3. **Bar the promoters and full time Directors of companies which are willful defaulters from holding public offices.**
4. **Adopt a policy to recover the concessions extended to corporates under CDR and other restructuring once the company starts making profits.**
5. **Provide sufficient capital to all Public Sector Banks.**

The P.J. Nayak Committee had admitted in their report that “the high leverage that banks operates makes banking a riskier commercial activity” and “the major share of financial savings is intermediated through public sector banks, which have been the dominant providers of loans and finance for infrastructure creation and manufacturing. We cannot forget that it is only due to the Government ownership that the financial instability the western economies experienced since 2008 did not affect the Indian banking system, a fact which has been stated by the former Finance Minister in the Parliament during UPA regime. It is Government ownership that saved the economy and provided stability in the financial sector. We may recall here that a decade ago, when three PSBs were dubbed as weak banks by the Narasimham Committee-II, there was no run on these banks. It is mainly due to the faith of the people in the Government ownership. In fact, there was substantial growth in deposits in these banks even after dubbing them as weak. In contrast a few years back when there was rumour about huge losses suffered by one of the major new generation private sector banks, there was panic reaction from the public as they started withdrawing their deposits through ATMs which was only quelled by a declaration by RBI that the Bank is safe and also due to the able support of continuous cash supply provided by PSBs to ensure that the Bank’s ATMs do not go dry on account of unprecedented withdrawals. Hence, banking should remain in public sector.

PSBS – BACKBONE OF ECONOMIC ACTIVITY: The Banks were nationalized to prevent economic concentration and to make available the national savings for the growth of the economy in the best interest of the nation. They have to provide finance to priority sector, agriculture, infrastructure and manufacturing projects which have long gestation periods, where the private sector banks will rarely step in. Today they are part of the nation building process and actively involved in the financial inclusion drive with the sole motto of providing every household a bank account. It is beyond any doubt that PSBs have shown exemplary performance in discharging their role. Further, the national savings cannot be allowed to be utilized for speculation and for the benefit of a few corporate houses. **The proposal and move to bring down the stake of the Government in IDBI BANK below 50%, without any apparent rational is condemnable as it is with ulterior motives. Hence, AIBOC would oppose any move to reduce the Government stake below 50%.**

Soumya Datta
General Secretary
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PRIVATE SECTOR BOARDS – FULL OF VIRTUES?: The reduction in government equity below 50% would result in handing over the Management to private individuals/ corporate. The professionalism and empowerment is ownership neutral. It all depends upon the owner and the caliber of the people who are appointed on the Board to manage the Banks. We have seen how the poster boy of new generation banking "Global Trust Bank" was managed by a "professional Board" and become bankrupt, ultimately forcing a PSB to take it over. We also have the example of Kerala-based Dhanalakshmi Bank which is suffering from the mismanagement by a Board headed by CMD who had earlier with the financial arm of a Corporate House.

AUTONOMY OF BOARD, A MIRAGE: In 2005, after a lot of fanfare, the Government announced an autonomy package for well run (which meet prescribed criteria) PSBs. If any one goes through the guidelines given in the package, the Boards are empowered to take decision in each and every area of operation including HR policies. But the Ministry which declared the package itself scuttled it by issuing guidelines in every area of autonomy thereby making the autonomy package a nullity.

AUTONOMY FOR BOARDS OF PSBS: As per the Nationalisation Act, the Board is fully empowered to manage the Banks within the policy framework of the Government. But the real problem lies in practice. What is required is autonomy to the PSB Boards without any interference from the Ministry and transparency in Selection Process of Board Members:

LACK OF TRANSPARENCY IN SELECTION PROCESS OF MEMBERS OF BOARD: The members of the Board are selected by the Government. However, the problem lies in the process which is totally opaque. Take for example appointment of CMDs and EDs. Starting from the eligibility norms till final appointment, absolutely there is no transparency as no information is available either to the candidates or to the public. It is often alleged that the eligibility criteria is tweaked to accommodate candidates who are close to the powers in the Government. As rightly observed in the Nayak Committee report "CEO Selection Committee comprises of Dy. Governor, Secretary DFS and other members. They are interviewed for short time (less than 5 minutes). Short-listing of candidates was done by DFS. Selected candidates appointed through Appointments Committee of Cabinet (ACC)." It is believed that during the whole process a lot of pulling of wires is required. It is also learnt that there are corporates who lobby for the candidates for a quid pro quo which later results in huge NPAS. The remedy for this lies elsewhere.

MAKE SELECTION PROCESS TRANSPARENT: The whole process could be streamlined if there is a real intention to create empowered Boards. The General Body of All India Bank Officers' Confederation (AIBOC) held in March 2014 had by a Resolution demanded that the selection process shall be made transparent and there shall be fixed tenure of 5 years for CMDs and EDs.

Comrades, as per the decision of our Executive Committee meeting held on 27th November, 2015 at Mangalore, we shall take all possible steps to resist the move of the Government to sabotage Public Sector Character of our Banks. We are sending you the press release along with this circular with a request to ensure wide publicity to our issues. We are also organizing a protest in front of the venue of 2nd Gyan Sangam, at Gurgaon to focus our views.

With comradely greetings,

Yours sincerely,
Sd/-
(HARVINDER SINGH)
GENERAL SECRETARY

UNQUOTE: