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Dear Comrades,

24th August , 2017

**News of Interest 24th AUG**

**MOTIVATIONAL QUOTES**

**“PRAYER DOES NOT CHANGE GOD, BUT IT CHANGES HIM WHO PRAYS.”**  
**SOREN KIERKEGAARD**

**HIGHLIGHTS**

- 1. CABINET FAST TRACKS MERGER OF PSU BANKS**
- 2. RBI SHOULD NOT STEP INTO DAY-TO-DAY ACTIVITIES OF BANKS, SAYS SUBBARAO**
- 3. PSU BANK MERGER: WHO IS PM NARENDRA MODI GOING TO TARGET FIRST? THESE BANKS SET TO DISAPPEAR**
- 4. CENTRE NOTIFIES NEW ₹200 NOTE**
- 5. INDIAN BANK FAULTED FOR LOSING CUSTOMER'S NET BANKING CREDENTIALS**
- 6. SELECT TMB BRANCHES TO WORK ON ALL SATURDAYS**

**Business Standard**

### **1. Cabinet fast tracks merger of PSU banks**

Govt promises no job losses; mergers by share swaps, no cash deals

Arup Roychoudhury & Indivjal Dhasmana

The Cabinet on Wednesday approved a framework to speed up mergers of public sector banks, the first of which could take place by March.

The mergers will not involve any cash but only share swaps. The government also said there would be no job losses after any of the mergers. PSU bank unions had gone on a strike on Tuesday.

The decision lifted banking stocks, but bankers said the decision should not be forced on them. Finance Minister Arun Jaitley made it clear the process would be initiated by

the boards of the banks. An official said a number of banks were discussing merger possibilities among themselves.

"The government is saying it will not force (mergers). They will leave it to the banks. If the players find it reasonable and profitable, they will work on it," said State Bank of India Chairperson Arundhati Bhattacharya.

*Business Standard* had reported in June that Bank of Baroda and Canara Bank could acquire smaller banks like Dena Bank, Vijaya Bank, UCO Bank, Union Bank of India and United Bank of India.

"You have a large number of banks in the public sector. The object is to create strong banks. Our experience of consolidation has been positive so far," Jaitley said at a media briefing after the Cabinet meeting. He added the decision to merge would be "solely based on commercial considerations".

The official said once banks had decided to merge and had worked out issues like share valuation and swap ratio, the exchanges would be notified. Simultaneously, the Reserve Bank of India and the government would study and approve the proposal, the person said. The final approval will be given by the Cabinet.

The alternative mechanism, similar to structures put in place to approve disinvestment proposals, would be decided by Prime Minister Narendra Modi and overseen by Jaitley, sources said.

After approval in principle from the RBI and the Government, the banks would take steps to merge in accordance with the law and the requirements of the Securities and the Exchange Board of India, an official statement said.

"The final scheme (of each merger) will be notified by the central government in consultation with the RBI," it added.

The mergers will take place under the Banking Companies (Acquisition and Transfer of Undertakings) Act. The official said the law allowed mergers. Bids for financial and legal advisers will be issued by the banks. A strategy to revive public sector banks has pegged their recapitalisation by the government at Rs 70,000 crore by 2018-19. The government has allocated Rs 25,000 crore each in 2015-16 and 2016-17 and proposes to infuse another Rs 10,000 crore this year. The official said mergers would reduce dependence on the exchequer for capitalisation.

Talks of bank mergers gathered momentum after five of State Bank of India's associate banks and Bharatiya Mahila Bank merged with the parent entity.

"Consolidation among public sector banks is structurally positive as they will benefit from operational and functional synergies. Mergers among similar banks can also result in effective implementation of non-performing asset resolution strategies," said Krishnan Sitaraman, senior director, CRISIL Ratings.

The gross NPAs of public sector banks rose from Rs 2,80,637 crore in June 2015 to Rs 5,60,841 crore a year later and to Rs 7,38,776 crore in June 2017. The real picture about NPAs started emerging after an asset quality review of banks initiated by the Reserve Bank of India under then governor Raghuram Rajan. The SBI scrip closed up 1.7 per cent at Rs 278.75, PNB 3.26 per cent at Rs 142.40, BoB 1.08 per cent at Rs 140.90 and Canara Bank 2.81 per cent at Rs 336.10 on the BSE.

## **2. RBI should not step into day-to-day activities of banks, says Subbarao**

Subbarao said RBI interference was the 'least bad decision' to check the rising NPAs in banks

Namrata Acharya

Former Reserve Bank of India (RBI) governor D Subbarao on Wednesday said the banking regulator should not step into day-to-day activities of banks, as it does not have the expertise to manage a bank's business. Subbarao was referring to the May 5 ordinance amending the Banking Regulation Act, which said the central bank has the powers to suggest and even compel banks to invoke proceedings against defaulters.

Subbarao was speaking at the event of second anniversary celebration of Bandhan Bank in Kolkata.

RBI has identified 12 accounts representing about 25 per cent of the gross bad loans in the banking system that would be eligible for immediate reference for bankruptcy proceedings.

The former governor also said the RBI interference was the 'least bad decision' to check the rising NPAs in banks. He added that such extraordinary powers should come with a sunset clause.

"There are problems in giving RBI extraordinary powers because you are getting involved into day-to-day business of banks. Also, RBI is known for its integrity and professionalism and its integrity gets affected," he said.

"It is the least bad decision. The government should have put a sunset clause, so that it becomes clear that this is an extraordinary measure," he added.

Further, the former RBI governor also said that merger or consolidation of banks should be based on the parameter of efficiency, and SBI's merger with associate banks might not have been the most efficient one as it was without any staff cut.

Also, consolidation of banks is necessary to strengthen the banking system. However, in the process of consolidation, certain banks must be allowed to die, he added.

"Consolidation should be done keeping in mind the interest of minority shareholders and bring in greater autonomy for banks. You should have the boldness to cut the flab, reduce staff and branches," Subbarao said.

Subbarao also said the actual benefit of demonetisation can only be gauged once the income tax collection as a percentage of GDP increases from 5.7 per cent to 7.7 per cent in the next three years.

"Income tax collection as a percentage of GDP is at 5.7 per cent at present. It should go up by one per cent this year and by 0.5 per cent a year for the next two years. Unless that happens we can't see cost benefits of demonetisation," he said.

Financial Express

### **3. PSU bank merger: Who is PM Narendra Modi going to target first? These banks set to disappear**

Dena Bank, Oriental Bank of Commerce, IOB and Central Bank of India could be initial targets for acquisitions, analysts said

Mumbai

The government's decision to set up an 'alternative mechanism' to fast-track consolidation among public sector banks (PSBs) to create strong lenders will help the PSBs streamline costs and improve governance, but a continuous focus on risk management and capital infusion from the government are crucial for a turnaround, industry experts said. The Cabinet on Wednesday gave an in-principle approval for public sector lenders to amalgamate for creating strong and competitive banks. The

proposal for a merger would have to come from banks and would be placed before the AM for in-principle approval. The final scheme will be notified by the government in consultation with the Reserve Bank of India. "We think bank consolidation will be positive in the long term, both from the bank management and governance perspective. Consolidation can lead to strengthening of management teams at the banks and can help improve the overall oversight from the government," said Alka Anbarasu, vice-president, financial institutions group, Moody's Investors Service. There are 21 state run banks including State Bank of India (SBI), the country's largest lender. Analysts believe the number of banks could come down to seven-eight after consolidation. In April, the integration of SBI with its five associate banks and Bharatiya Mahila Bank became effective.

"Ultimately, the assets of the banking industry need to be protected and this is a positive step towards it," said Khushroo Panthaky, director, Grant Thornton Advisory. "There will be synergies in terms of savings, better risk management and a more comfortable capital position." While it is too early to arrive at specific numbers, there would be significant savings in marketing costs, business development costs, and distribution costs, Panthaky said, adding that due to better risk management procedures, bad loans of combined entities could come down in future. Lenders such as Dena Bank, Oriental Bank of Commerce, Indian Overseas Bank and Central Bank of India could be the initial targets for acquisitions, analysts said.

However, bank consolidation will require support from the government in the form of capital injection. "In the current condition of the banking system, we don't think just bringing two banks together will resolve their asset quality and capital challenges," said Anbarasu of Moody's. "Furthermore, we don't think bank consolidation will change the situation of NPA resolution compared to the process banks are already following. For resolution of NPAs to take place, banks will need to take haircuts, and until their provisioning coverage ratio improves further, we think their capacity to take haircuts is limited."

However, the biggest challenge could emanate from the fact that most of the public sector banks function in a similar manner. While consolidation will create larger banks, there will be little improvement in governance, decision making in terms of credit disbursement and the overall culture, a senior official of a large credit ratings agency, who is not authorised to speak to the media, said. "The balance sheet will be larger, but it will be difficult for them to move away from the existing ways of doing business. The exercise will be successful if they can do that," the official said.

## **Business Line**

### **4. Centre notifies new ₹200 note**

SURABHI

The Centre on Wednesday notified currency notes of the denomination of ₹200, which is expected to not only curb counterfeit money, but also ease the high demand for low-denomination currency.

"...On the recommendations of the Central Board of Directors of the Reserve Bank of India, the Central Government hereby specifies the denomination of bank notes of the value of two hundred rupees," said an official notification.

## **Likely next month**

Though the new notes are expected to come into circulation from September, Finance Minister Arun Jaitley said all decisions, including their printing and circulation, will be taken by the RBI.

However, the process of printing the new notes is understood to be under way at the RBI's printing presses.

A formal announcement, including unveiling of the new design, is expected soon.

The RBI had recently unveiled a new series of ₹50 currency notes.

### **No plans**

Jaitley also denied any move to phase out the ₹2,000 currency notes.

"There is no discussion within the government on phasing out these notes," he told reporters.

After the decision to demonetise the old series of ₹500 and ₹1,000 notes in November last year, the government had introduced the new ₹500 and ₹2,000 currency notes.

While the exercise was aimed at cutting down fake currency and catch black-money hoarders, for the common man the shortage of low-denomination notes resulted in much consternation.

## **5. Indian Bank faulted for losing customer's net banking credentials**

VINSON KURIAN

At a time when threats to data security have taken centre-stage, a public sector bank has been faulted for 'causing harassment' to a customer whose net banking credentials were compromised for no fault of his.

Acting on a complaint from Balaji Srinivasan, a Hyderabad-based software engineer, the Central Information Commission (CIC) chastised respondent Indian Bank for dragging its feet in the case, and awarded a token compensation to the appellant.

### **'Serious breach'**

The personal credentials of the appellant's net banking account were found compromised on December 6, 2014, with the name, address, PAN and mobile number having been affected.

These details were replaced with zeroes and cross signs. The breach was so serious that the net banking platform failed to display the two secret questions pre-set as security keys and demanded him to re-set the security keys by generating an OTP.

Since he did not get satisfactory responses from the bank regarding the breach, Srinivasan took recourse to an RTI application dated July 7, 2015, but to no avail.

The bank later admitted to changes in the net banking profile of the appellant's account and claimed the problem had occurred in the course of migration of data to Core Banking System (CBS) and rectified the mistake subsequently.

Srinivasan stated to the CIC that the issue raised by him is a matter of larger public interest concerning the security of customer accounts in various banks, which it agreed with.

The submission that the mistake occurred during migration of data and that it has been rectified does not answer the queries of the appellant, the CIC noted in its final order dated July 28, 2017.

It asked the bank to either provide the specific information sought by the appellant through his RTI applications or file a sworn affidavit, explaining in detail the reason(s) underlying the security breach.

The bank stated that it will file a sworn affidavit. The CIC directed it to do the same with a copy to the appellant within 15 days of the receipt of its order, and keep it posted.

### **Token compensation**

The affidavit should indicate the date on which the changes were made to the appellant's account and the date on which the mistake was rectified. The CIC expects the respondents to give a reply that explains the factors underlying the mistake, rather than taking shelter behind a general submission, such as problems connected with the migration of data to CBS.

It also noted that the appellant had not only suffered harassment, but also did not get a satisfactory reply from the bank to his queries.

"It is difficult to compensate an appellant for such harassment in monetary terms. However, by virtue of the power vested in us under Section 19 (8) (b) of the RTI Act, we direct the bank to pay a token compensation of ₹5,000 to the appellant. It should ensure that this is done within 10 days of the receipt of its order, under intimation to the CIC."

## **6. Select TMB branches to work on all Saturdays**

VINSON KURIAN

Tamilnad Mercantile Bank (TMB) has denotified second and fourth Saturdays of the month as working days for select branches from September 1.

This is being done with a view to building new business, expediting recovery of NPAs and improving customer service. Currently, second and fourth Saturdays are banking holidays as per a government order dated August 1, 2015.

### **'Strategic branches'**

The newly-declared working Saturdays are applicable only for the specially denoted 'strategic branches' (109 in number as on date), said an internal circular issued on Tuesday and seen by *Business Line*.

Select staff members, up to a maximum of one-third (depending on the size of the branch), and jewel appraisers, will work on these days. They will be given a compensatory leave within 15 days.

Branch heads will ensure that the compensatory leave thus earned is exhausted within these 15 days. They will maintain a separate register to capture the details of these staff and the compensatory leave taken.

Regional managers will personally handle the strategic branches and ensure the new system functions properly. They must also ensure that the extended working days are exclusively utilised for business development.

Apart from the strategic branches, other offices of the bank will not function on the second and fourth Saturdays, at least for now, the circular clarified.

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)**  
**GENERAL SECRETARY**