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Dear Comrades,

13th September , 2017

### News of Interest 13<sup>th</sup> SEP

#### MOTIVATIONAL QUOTES

“THE GREATEST POWER IS OFTEN SIMPLE PATIENCE. “ E. JOSEPH COSSMAN

#### HIGHLIGHTS

1. HOW ARUNDHATI BHATTACHARYA MADE SBI MORE RELEVANT IN JUST 4 YEARS
2. PSU BANK MERGER SHOULD FOLLOW BALANCE SHEET CLEAN-UP: RAGHURAM RAJAN
3. HOW BANK OF BARODA IS MANAGING ITSELF UNDER PRIVATE SECTOR BANKER AS CHIEF EXECUTIVE
4. BANKS ARE GOING THROUGH STRESS, NOT THE RIGHT TIME FOR MERGERS: INDIAN BANK MD
5. BANK EMPLOYEES CALL FOR PROTEST MARCH ON SEPT 15

#### Business Standard

##### 1. How Arundhati Bhattacharya made SBI more relevant in just 4 years

Arundhati Bhattacharya has dealt with multiple challenges

Abhijit Lele

State Bank of India (SBI) Chairman Arundhati Bhattacharya’s four-year term, which will end on October 6, has been eventful. Her tenure also coincided with rising bad loans of the banking sector, and the subsequent fire-fighting that is going on the resolution front. Besides that, she prepared the ground for the merger of its associate banks with itself which was completed earlier this year.

Bhattacharya was also focused on making the banking behemoth more relevant to the changing business environment, customer needs or employee expectations – making the bank digitally savvy, cordial relations with the regulator and making the organisation employee-friendly, especially for women. Her operational skills were also tested during the demonetisation period, as all banks, including SBI, had to manage

the exchange and deposits of scrapped notes. However, the bank's margins and asset quality came under pressure as the demand for loans reduced significantly along with rising provisions for bad loans.

The question foremost on the minds of bankers, customers and experts is whether she is leaving the bank in a stronger and better position today. Here are the key highlights of Bhattacharya's tenure in the corner office at the bank's headquarters in South Mumbai.

## **The merger**

Though already the largest bank in the country, the merger of five associate banks and Bharatiya Mahila Bank with consolidated asset base of over Rs 33 lakh crore, has given the SBI more firepower and scale to compete on global arena. The bank's merger with six other entities has taken it into the league of top 50 banks globally in terms of assets.

For Bhattacharya, who got a one-year extension last October, the merger was the key task during the past year, which she delivered, said a senior public sector banker.

The bank had done a lot of groundwork prior to the merger, especially in 2016-17 in terms of cleaning up the corporate loan book of associates, integration of information technology systems, and bringing senior management on the same page to ensure smooth transition.

The merger has resulted in strain on the bank's financials with a rise in slippages in the retail loan book and slow growth in home loans. But, these are one-off events, said an analyst with a domestic brokerage firm.

## **Relations with regulator and government**

A former top SBI executive said the relationship of the head of the largest bank with the regulator Reserve Bank of India (RBI) is crucial. Unlike her two predecessors, who had run-ins especially with the regulator, Bhattacharya developed good working relationship both with the RBI and the finance ministry. The central bank takes her opinion and insights seriously, said an executive at the Indian Banks' Association.

## **Capital position**

In June, the SBI raised equity capital of Rs 15,000 crore through a qualified institutional placement route, the first such fund-raising after the merger, at Rs 287.25 per share. As a result, its capital adequacy ratio stood at 13.3 per cent at end of June 2017 for combined entity, compared with 13.1 per cent for the standalone bank in the March 2017 quarter.

## **Asset quality**

Bhattacharya in her first two years brought down gross non-performing assets (NPAs) as a percentage of total advances from 5.6 per cent in September 2013 quarter to 4.2 per cent in the September 2015 quarter. However, after the central bank's asset quality review, applicable from December 2015 quarter, gross NPAs have gone up. The June 2017 quarter showed the impact of poor asset quality in associate banks as gross NPAs touched 10 per cent.

While working to stabilise the asset quality of the bank, Bhattacharya was vocal about taking action against recalcitrant managements and promoters of defaulting

companies. But, banks were hamstrung without legal recourse to kick existing managements out. The SBI was no exception to it.

With the Insolvency and Bankruptcy Code giving creditors more rights, Bhattacharya has been instrumental in driving hard bargains in many NPA cases.

In an otherwise steady journey of improvement in asset quality, a merger induced bump up in gross bad loans has queered the pitch.

She was equally vocal about pointing to adverse effect of farm debt waivers on credit discipline. She did find strong support on her view on farm loan waivers from former RBI governor Raghuram Rajan when he was the central bank governor.

## **Financials**

The bank's financials improved in Bhattacharya's two years with the net profit rising from Rs 2,375 crore in the September 2013 quarter to Rs 3.879 crore in the September 2015 quarter. However, after the RBI's asset quality review from the December 2015 quarter, the SBI's financials began deteriorating. The SBI's net interest margins, which were in the range of 3-3.2 per cent fell to 2.8 per cent between June 2016 and March 2017, and fell further to 2.4 per cent in the June 2017 quarter after the merger with associate banks.

## **Digital banking**

The leader in physical banking was lagging behind private sector banks in the digital space when Bhattacharya took over as chairman. The bank's digital offerings both increased and improved as it quickly launched products from e-wallet SBI Buddy to digital branches, and mobile website and apps for all types of customers. As a step to support the fintech ecosystem, the bank created a Rs 200-crore fund to invest in fintech start-ups. Many solutions and services are expected to emerge from this fund to give an edge to the bank for the future.

## **People focus**

Bhattacharya's people skills are something even her competitors admire. For the merger, she had to bring employees on board, and convinced them patiently to accept it. She let senior colleagues – managing directors – work independently, which is seen a major plus. She has also been sensitive to employees' concerns and has addressed them effectively. She allowed women employees to work from home if they were caregivers to an ailing parent or if a child had an important exam to take.

## **2. PSU bank merger should follow balance sheet clean-up: Raghuram Rajan**

I would say restore the banks to health, get active board composed of professionals: Rajan

[Press Trust of India](#)

Mergers of PSU banks should be done only after balance sheets are cleaned up and these are nursed back to health with adequate capitalisation, said former RBI governor Raghuram Rajan.

"I would say restore the banks to health, get active board composed of professionals. There has been a steady attempt to professionalise banks and remove political hacks. Once we have done that, I think there will be an ideal situation for merger," he said in an interview to PTI.

He was responding to a question on the government's push for consolidating public sector banks with an aim to create fewer and larger banks.

Rajan also suggested that decisions need to be made by those who understand the banking system rather than necessarily by bureaucrats.

"It seems to me that cleaning up has been postponed for one reason or the other. We are in a reasonable position to do it. We need to actually achieve it and put the capital that is necessary to recapitalise the banks where it is needed and after it seems that some of the (merger) decisions can be made," he added.

The statement assumes significance as the government recently initiated the process of second round of consolidation in public sector banks by constituting an Alternative Mechanism to oversee proposals of amalgamation.

Pointing out that going forward, the merger would not be as easy as SBI that had few teething issues, Rajan said "you would be merging banks with fairly different culture, fairly different orientation, system and region".

"To that extent, you have to be careful about time it will take and what the merger would add in terms of value. Merger requires a fair amount of cultural focus because you are merging banks which have different cultures," he said.

"There are personnel problems like who becomes the boss, who becomes the subordinates. For example, if you are merging two forex units, then who becomes the boss? So, all these issues come to the fore. It occupies enormous amount of the management's time," the ex-governor pointed out.

Talking about Asset Quality Review (AQR) initiated during his regime to clean up banking, Rajan said what was unique about the exercise was that for the first time, the regulator went across the banks to see if they were classifying the same promoter and the loan the same way.

The RBI had embarked on the AQR journey from December 2015 and asked banks to recognise some top defaulting accounts as NPAs and make provisions for them. This has had a debilitating impact on banks' numbers.

Almost all lenders in the system have reported a sharp increase in asset quality stress and heightened provisioning as a result of the AQR, under which banks have been reportedly asked to recognise stressed accounts by March 2017.

## **Economic Times**

### **3. How Bank of Baroda is managing itself under private sector banker as chief executive**

*By Sangita Mehta*

Two years ago when the government stuffed the board of Bank of Baroda with professionals and parachuted a former Citi banker as chief executive, hopes of a transformation fire had been lit. After seven quarters of provisioning for bad loans and stubbornly tepid private investments, there is hardly anything to show in terms of improved financials. But Rome was not built in a day either.

Along with high investor expectations came consternation among its 52,000 staff, who till then were regimented into taking orders from bureaucracy and had a blinkered view of banking as well as their careers. Unlike private companies, where managements have a free hand to act on strategy and people, the new entrants had

the delicate task of transformation with hands tied. "I am a big believer that if you have to see transformation, you have to work on the software of the organisation," says Ravi Venkatesan, chairman, Bank of Baroda. "So, it's not just about strategy ... culture and leadership always win over strategy."

Twenty four months of nagging, cajoling, authority, persuasion and some plain speak have tempered both the expectations of investors as well as the anxiety of staff about their future in the organisation. If the past and present of the bank is similar to other state-run banks, what is going to make its future any different from peers?

"It's a cultural shift in our corporate bank," says Mayank Mehta, executive director at Bank of Baroda and a 38-year-PSU banking veteran. "Traditionally, PSUs don't go to meet clients and indulge in outbound activities. But this has been initiated right from the managing director level to the general manager level."

The name of the game is aggression. It secured a Rs 2,000-crore credit line to buyout giant KKR & Co, which would have usually preferred a multinational bank with 'relationships' in New York or London.

The Hinduja, who own truck maker Ashok Leyland and lubricants firm Gulf Oil, are among the latest entrants to the marquee client book of BoB, which also has the distinction of funding pharma billionaire Dilip Shanghvi's first plant of Sun Pharmaceuticals at Vapi in Gujarat.

## **DATA AND CLIENTS**

The bane of public sector banking has been that the finance ministry was setting the agenda for all banks which resulted in all the lenders looking alike. The management had little incentive to do anything different. That sameness due to bureaucratic directives left little room to be competitive.

But banking is no more just about persuading someone to open a savings bank account or campaign for fixed deposits that would meet the quota set at the beginning of the year as mandated by the finance ministry.

If someone has an account with HDFC Bank or ICICI Bank the banks have algorithm to figure out the loan requirement of a customer based on his age, income, spending habits and social media activity. But PSU banks were left behind in the race.

A new data analytics company is taking shape. It has set up a centralised loan processing centre for retail customers, which not only eliminates local branch intervention but also frees local staff to market products. Improved data mining is leading to cross selling from credit cards to derivatives like its sophisticated rivals do.

"BoB is a big giant, it will take time for them to completely clean up the slate and start writing a new story," says Darpan Shah, assistant vice president, institutional research, HDFC Securities. "From being a typical PSU, they are now focusing on risk-based pricing on better-rated corporates. For their retail and SME businesses also, they have a similar strategy."

With HDFC Bank and ICICI Bank taking giant leap adopting the best practices of Citi or JPMorgan, can a Citi banker-led lender be far behind? The language is making a difference.

"In the retail bank, our first step was to set up a strong collection organisation which consists of call centre because lending without collection is like driving a car without brakes," says PS Jayakumar, chief executive of the bank. "We also meet clients and

discuss prospects ... now it might sound very simple... everyone meets clients. But it is a big change as compared to what has been happening earlier.”

## **HUMAN RESOURCES**

It is changing the way it recruits, has implemented a complete overhaul of the performance management system, put in place a senior leadership programme where age takes a back seat to performance for the general manager and lower level officers. “The initiatives we have today may or may not last as we get new management,” says Venkatesan.

“The next MD & EDs may have different strategic priorities, they may continue the things we have started, they may not. But if we can ‘ignite’ a critical number of people and they catch fire as leaders, then there is nobody who can stop them. The transformation of BoB is then assured.”

The bank is no exception to the PSBs’ curse – unwanted number of contractors bilking the institution. It had 1,400 concurrent auditors eating up Rs 38 crore in annual fees, and now that is down to just 30 auditors for Rs 3 crore. The bank has better reports to act on as well.

## **Business Line**

### **4. Banks are going through stress, not the right time for mergers: Indian Bank MD**

#### OUR BUREAU

With most banks under severe stress, it may not be the right time to move ahead with consolidation in the banking sector.

According to Kishor Kharat, MD and CEO, Indian Bank, if merger takes place under the current situation, it might affect the health of the banks and may not be good for the entire banking ecosystem.

“Banks are going through difficult situation; this is not the right time for mergers,” Kharat said at an interactive session organised by the Merchants’ Chamber of Commerce & Industry here on Tuesday.

While the government has announced its intent to merge banks, it would not be right to ‘push through’. “By merging we will not stand to gain — not in terms of getting capital, not in terms of bringing down NPAs or becoming profitable either,” he said.

While the government has expressed its intent of merging a big bank with a smaller one, a mega merger may not be possible. “Mega merger is not a good option and will not be in the best interest of bank, customers as well as economy,” he said.

Banks need to be recapitalised and that can happen by bringing about an improvement in the NPA situation. “Even if resolution takes place in the top 100 accounts then it will release a lot of stress from the banking industry,” he pointed out. Indian Bank’s gross NPA was at 7.21 per cent as on June 30.

Indian Bank is currently well capitalised with a capital adequacy ratio of 13.58 per cent as on June 30. However, a SEBI regulation mandates the bank to bring down government holding to 75 per cent from the current 82 per cent.

The bank would evaluate various options for raising capital including follow-on public offer and qualified institutional placement (QIP), he said.

## Capital position

"Our present the capital position is comfortable to grow; we are waiting for an opportune time to raise capital. We have time till March 2019 to bring down government stake," he said. The bank is looking to achieve a business growth of 12-14 per cent this fiscal.

## Business Word

### 5. Bank Employees Call For Protest March On Sept 15

*The new wage revision is due from November 1, 2017 and the Indian Banks' Association (IBA) is yet to commence dialogue with seriousness.*

Bank employees plan to conduct "March to Parliament" on September 15 to draw the government's attention towards various issues, Deepak Kumar Sharma, General Secretary of SBI Officers Association, Chandigarh Circle, said here.

Sharma added that as regards the banking sector there is a long list of issues like shortage of staff, real recovery of NPAs, withdrawal of FRDI Bill, increase of service charges of public, Compensation of Demonetisation etc.

He also raised some issues of SBI like merger of associate banks and said that a number of irritants in the area of implementation of merger have come before the association like placement of officers, relocation of offices and structural changes as the number of branches and new regional offices been increased.

The workforce of banking industry is preparing for a strong protest action during the next couple of months in order to convey their resentment over such issues, he said.

Sharma was visiting the city in connection with opening of the Officers Guest House at Dharamshala.

Sharma said in an official press release that "after a successful all-India strike on August 22 this year, the officers and workmen in banking industry have given a call for 'March to Parliament' on September 15, 2017".

Sharma drew attention towards the huge NPAs created by the corporate sector, helplessness of bankers in recovering the loans in the absence of strong political will and stringent legal frame work.

He said, "The government has been continuously complaining about the performance of banks by highlighting the growing NPAs with a sinister design to privatise the banking industry."

Sharma said the new wage revision is due from November 1, 2017 and the Indian Banks' Association (IBA) is yet to commence dialogue with seriousness.

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)  
GENERAL SECRETARY**