Banking News

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NEWS BULLETIN from ALL INDIA BANK EMPLOYEES' ASSOCIATION

WORKERS OF INDIA GET READY FOR THE MASSIVE STRIKE ON SEPT. 2

Even as the Government tried to wean away the workers from the strike call, trade unions across the country are all set to go ahead with the general strike on 2nd September, 2015. The strike call has been given by the Central Trade Unions and supported by numerous independent sector-wise unions. According to trade unions, the strike action will be a massive success as the response this time to the call has been unprecedented.

"This strike is in condemnation of the apathy of the Central Government to the plight of the workers and against the various proposals of the Government to codify the labour laws. Our 12 points charter has been deliberately kept aside by the Government. What is the way out for the workers than to show their protest through the strike?", said a trade union leader.

According to CH Venkatachalam, General Secretary of the leading bank trade union **All India Bank Employees Association**, the strike in the banks will be massive because the illusion about this Government has fast evaporated and bank employees feel that the Government is riding rough on them. One by one, various Government schemes are being foisted on the banks and when employees are struggling with heavy workload, the Government is busy in boasting of statistics of its achievements. To add fuel to fire, Government is appointing private sector executives to head the public sector banks when three are so many talented executives within.

Venkatachalam said that allowing Payment Banks to be started by various private entities including Reliance and Birla will have serious implications for the market share of PSBs. What is more tragic is that large PSBs are running after these private companies to become a junior partner in the proposed Payment Banks, he felt.

Asked if trade unions have a hidden political agenda in pressing for this strike, Venkatachalam said that there is no hidden agenda at all. If attacking the rights of trade unions is the agenda of the Government, protesting against it is the agenda of the unions. When government is taking a decision to amend labour laws, and if that is politics, our strike is also politics. What is required is to address the issues raised by the trade unions and not indulge in polemics, Venkatachalam said.

In the Banking Sector the following unions have given the call for this strike

- All India Bank Employees Association
- All India Bank Officers Association
- Bank Employees Federation of India
- Indian National Bank Employees Federation
- Indian National Bank officers Congress
- All India IDBI Bank Employees Association
- All India Reserve Bank Employees Association
- All India Reserve Bank Workers Federation
- All India NABARD Employees Association
- All India RRB Employees Association
- All India Gramin Bank Employees Association
- All India Gramin Bank Officers Association
- All India Co-operative Bank Employees Federation
- All India Bank Deposit Collectors Federation

RBI designates State Bank, ICICI as ‘too big to fail

BUSINESSLINE, MUMBAI, AUG 31:

The Reserve Bank of India on Monday designated State Bank of India and ICICI Bank as Domestic Systemically Important Banks (D-SIBs), which will put them under tougher monitoring to avoid any collapse. SIBs are perceived as banks that are ‘Too Big To Fail’

The RBI said the two banks have been selected due to their size, cross-jurisdictional activities, complexity, lack of substitutability and interconnectedness. SBI alone accounts for a fifth of the banking business in India.

“The disorderly failure of these banks has the potential to cause significant disruption to the essential services they provide to the banking system, and in turn, to the overall economic activity. Therefore, the continued functioning of SIBs is critical for the uninterrupted availability of essential banking services to the real economy,” RBI said while announcing the framework for dealing with D-SIBs.

Following their designation as D-SIBs, SBI and ICICI Bank must meet additional Common Equity Tier 1 (CET1) requirements from April 1, 2016, in a phased manner. The CET1 requirements will be fully effective from April 1, 2019. This means the banks will have to set aside more funds at a time when banks are battling a huge bad debt burden.

The additional requirement as a percentage of Risk Weighted Assets (or loans) for SBI and ICICI Bank have been set at 0.60 per cent and 0.20 per cent, respectively. This will be in addition to the extra capital buffers already in place under Basel-III guidelines.

Both banks said their capital base was higher than mandated. Arundhati Bhattacharya, Chairman, SBI, said, “SBI currently has a much higher level of Tier-I at 9.62 per cent as opposed to 7 per cent required under the current guidelines. We will adhere to the additional requirements as and when they become applicable.”

Chanda Kochhar, MD and CEO, ICICI Bank, said, “ICICI Bank’s capital adequacy is well in excess of regulatory requirements and the Bank is not expected to require fresh equity capital for the next couple of years."

If a foreign bank, having a presence in India, has been notified as Global Systemically Important Bank (G-SIB), it has to maintain the additional capital surcharge in India, proportionate to its Risk Weighted Assets in India. HSBC, JP Morgan Chase, Barclays and BNP Paribas are among the G-SIBs in India as per the Financial Stability Board's list of November 2014.

Maintaining additional capital not a tough task for the big daddy banks

RADHIKA MERWIN BL RESEARCH BUREAU August 31, 2015:

Strong on capital ICICI Bank MD & CEO Chanda Kochhar (left) with SBI Chairman Arundhati Bhattacharya.

Both ICICI Bank and SBI have comfortable Tier 1 ratio

Two banks — ICICI Bank and SBI — need to bulk up their capital after being named domestic systemically important banks (D-SIB) by the RBI on Monday.

These 'too-big-to-fail' banks will be required to set aside more capital than their peers. After putting in place the framework for D-SIBs last year, the RBI has short-listed two Indian banks. Among the criteria used by the RBI to shortlist such banks, asset size is the main one with a 40 per cent weight.

The biggies

Going by size alone, 12-14 banks could have been categorised as systemically important. But many appear to have been filtered out when other criteria such as interconnectedness and complexity were considered.

Based on the category in which a bank falls, it has to set aside extra capital in the range of 0.2 per cent to 0.8 per cent of risk weighted assets by April 2019.

SBI, which has been put in the third bucket, needs to set aside 0.6 per cent additional Tier I capital by April 2019 in a phased manner; 0.15 per cent by April 2016 to start with.

ICICI Bank, on the other hand, will need to set aside a lower 0.2 per cent by 2019.

For both these banks, maintaining additional capital requirement may not be difficult since they already have a strong capital adequacy ratio.

ICICI Bank's core Tier 1 ratio (essentially the bank's own equity) is about 12 per cent, much above the mandated 7 per cent. For SBI, the Tier I capital ratio is about 9.6 per cent. Given the bank's relatively better performance *vis-à-vis* its peers, the government is likely to continue to infuse capital. This will help SBI to comfortably meet its capital needs.

Midgets at global level

The move to identify 'too-big-to-fail' banks is in line with the mandate of the Basel Committee of Banking Supervision. The Financial Stability Board (headquartered in Switzerland) has identified 30 banks as systemically important from a global perspective.

An analysis of data shows that Indian banks are midgets compared to these global banks, which are headquartered across 11 countries. The eight US banks in the list have combined assets of a little more than 60 per cent of the country's GDP. The UK and France have four banks each featuring in the list, and their assets-to-GDP ratio is more than 200 per cent.

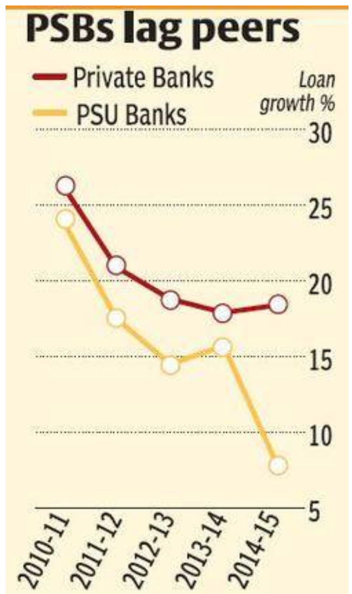
Contrast this with the two big banks in India. Their combined assets are just over one-fifth of the country's GDP. India's largest bank SBI's assets are just 15 per cent of our GDP. In Germany, one bank alone has assets-to-GDP of over 50 per cent.

In absolute terms, too, the size of global banks are intimidating. JP Morgan Chase, the largest bank in the US, has an asset size of about $2,500 billion, which is nearly six times that of SBI's. The lending operations of Indian banks are also much lower than that of their global peers.

Closer home, Industrial and Commercial Bank of China, has a loan book that is nearly seven times that of SBI's.

The gap between private banks and PSBs gets wider

RADHIKA MERWIN BUSINESSLINE



Private banks have been racing ahead of their public sector counterparts

The Indian economy has been through one of the longest spells of slowdown. The banking sector, which is directly linked to the fortunes of the economy, has been affected in many ways. Bank lending is a function of economic growth.

Also, weak corporate earnings have meant larger defaults on loans, which have in turn led to higher provisioning costs and lower earnings for banks.

But during this prolonged phase of economic slowdown and high volatility in interest rates, private banks have proved their mettle and emerged clear winners. How?

For one, with the start of the financial crisis in 2008, while public sector banks continued to lend aggressively to stressed sectors, private banks consolidated their balance sheet and stayed clear of risky project financing opportunities. Instead, they turned their focus to the growing retail segment. Private banks have also been stepping up efforts to garner SME loans, which have enabled them to grow above industry.

Loan growth

Sample this. Bank credit growth has been 2.5 to 3 times the growth in real GDP in the past. After growing at about 18 per cent annually during 2009-12, loan growth slipped to 11 per cent over the last three years.

Growth in bank credit is now languishing at 20-year lows of 9 per cent. The sharp deceleration in loan growth has primarily been led by the slowdown in investment activity by corporates.

The loan mix for public sector banks is tilted towards large corporates, which constitute 40-50 per cent of their lending. On the other hand, for private banks, retail loans constitute about 40-50 per cent of their portfolio.

In 2014-15, while the loan growth for PSU banks slowed down to 8 per cent from 16 per cent in the previous year, private banks held their loan growth steady at 18 per cent.

On the funding side too, private banks have been able to increase their market share in low-cost retail deposits, thanks to better efficiency, retail push and service quality.

Strong traction in loans and deposits has helped private banks deliver stable margins over the last two to three years. The core net interest income (NII) has grown at a steady 17-18 per cent. But public sector banks have seen their NII grow by a much slower 7-9 per cent in the last two years.

Bad loans

Besides the slow pace of credit off-take and weak operational performance, public sector banks have been grappling with a large stock pile of bad loans and restructured assets.

For State-owned banks, bad loans have gone awry in the last two to three years; shooting up to a little over 5 per cent of total loans from about 3 per cent three years back. The bigger concern has been the large amount of loans that have been restructured.

The combination of bad loans and restructured loans now exceeds 11 per cent of loans. Earnings have shrunk by over 30 per cent in the latest June quarter. In contrast, private banks have managed to keep their bad loans under check, at about 2 per cent of loans in the last two to three years. Even restructured loans are about 1-3 per cent for most private sector banks.

Earnings for private banks have grown at a healthy 16 per cent in the June quarter.

PSBs need govt support for viability of social schemes, says SBI chief

Arundhati Bhattacharya, SBI Chairman

MUMBAI, AUG 28: PTI

SBI chief Arundhathi Bhattacharya today said the government needs to think about "ways and means" to sustain social security schemes like Pradhan Mantri Jan Dhan Yojana in the long run and compensate public sector banks (PSBs) to make such initiatives commercially viable.

"The government wants that it (PMJDY) should be a sustainable kind of initiative... that we should not do it and then allow it to die because it is not commercially viable. So obviously, the government will have to think of ways and means to ensure that these accounts, once they come in, become commercially viable accounts," she told reporters.

"We are already working on it with the government. I don't think the government intends not to give anything. But we are working on what it should be," she added.

The remarks from SBI chief came a day after Reserve Bank Governor Raghuram Rajan stressed on the need to compensate PSBs to maintain a level playing field as many of the private sector banks do not get pinched by such measures.

"We should recognise that PSBs undertake public interest activities (like the roll—out of accounts under PMJDY) that are not always fully compensated. Government should endeavour to keep the competitive playing field level by fully compensating banks for activities it wants to undertake in the public interest," Rajan wrote in the Overview section of RBI's annual report.

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