

ALL INDIA NATIONALISED BANK OFFICERS' FEDERATION

(Registered under Trade Unions Act 1926)
(Regn No: 25127/West Bengal)



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WE DON'T OWN BUT WE OWN – 2

Friends,

By now, you should have a clear understanding and be familiar with the title of this series. Religion apart, the Mahabharatha, an epic of our country, holds innumerable lessons and values to be imbibed and practiced – be it in our day to day personal life or in our social behaviour or in dealing with the official scenario. There have been many interpretations and commentaries on the Mahabharatha. In one such explanation, I came across Abhimanyu lamenting the plight of Hastinapur, yet, mustering all his youthful aggression, pledges to fight and reclaim the glory of Hastinapur by saying “**WE DON'T OWN** THE PRESENT CONDITION OF HASTINAPUR, **BUT WE OWN** HASTINAPUR”.

In our own parlance, the Trade Union movement has witnessed many Chakravayugas in the past and unlike Abhimanyu, it has emerged victorious every time, time and again. This was possible mainly owing to the staunch faith reposed by the Bank Officers in the Bank Associations and the unfailing support extended by them for every call of the Associations in testing times.

“Give and Take” is the laid down and accepted principle of Trade Unions. But the recent move of the Government in unilaterally handing out a diktat of Tripartite Memorandum of Understanding, for Capital allocation, essentially leads to **giving up** our hard-fought rights and **taking down** the Government's dictates.

Friends, NPA is the main scourge of banking industry. Causes and reasons for NPA have been discussed and tabled far and wide – by industry chambers, academia, legal experts, media, politicians, corporate houses, lobbyists, and lastly by the commoner too. All of them seem to enjoy a pleasurable unanimity in agreeing that the problem of NPA is solely attributable to 'bankers'.

We owe them all no explanation; our conviction to fight the malaise of NPA is deep-rooted and beyond scrutiny. Why should we waste our time and effort to clarify to all and sundry, the travails we undergo and the hardships we have to put up with while dealing with NPAs and especially hostile wilful defaulters, sacrificing our personal dignity, social status and not to mention the loss of precious time with our kith and kin even on holidays.

Man lives by hope. During our endless discussions on tackling this precarious situation of virulent attack on PSBs, two articles, by learned, eminent personalities, have come as lifejackets when there is a fear of getting drowned in the sea.

Following are the excerpts from those articles.

NPA problem: Bankers alone should not be blamed

Gunit Chadha – Economic Times issue dated 21st March 2017

"Why NPAs happen – while several individual NPAs can be attributed to poor credit judgements or failure of good process by bankers, let's go beyond that to more thematic reasons.

... What did cause NPAs globally was the sharp contraction in capacity utilisation and output prices since the global financial crises, resulting in some global businesses – commodities etc – becoming deeply stressed.

Another less discussed reason for NPAs in banks, globally, relates to bank's board role towards setting the right business framework Bank board need to be more assertive in their choice of the business model, credit policies and consequences of management's actions.

One significant reason for NPAs has been Indian banks' focus on security, rather than projected operating cash flows, in their credit assessments. This is surprising as India has a legal environment where security invocation is highly delayed and often uncertain.

In the last decade, some infrastructure projects did suffer due to policy paralysis around environment and related approvals. To add to that, some industrial sectors were impacted these are exogenous factors to bankers' credit assessment.

Having spent 30+ years in banking across USA, Asia Pacific especially India, I can confidently say that the "made in India" bankers are very good. Especially junior to mid-level bankers from the public sector who have been trained cross-functionally at the grassroots level.

... there has been an over-concentration of long-dated infrastructure-related project finance exposure on the banking system rather than it being diversified across banks, bond markets, pension funds and insurance companies Banks may have mispriced these loans in the absence of any market-traded credit benchmarks.

... slow and antiquated laws on bankruptcy, which unfortunately delayed the NPA resolution and recapitalisation process leading to mounting gross NPAs;

Stop Blaming India's Public Sector Banks

– T T Ram Mohan, Professor, IIM, Ahmedabad

"Outraged commentators and a section of public ask why tax payers should pay for the alleged inefficiency of PSBs. They view the woes of India's banking sector as the 'aha' moment in banking reform: it is time the government exited majority ownership in PSBs. Then – and only then – can the government save the fisc from being mauled by repeated 'bailouts' of banks.

*This line of thinking would, perhaps, have been excusable before the financial sector crisis of 2007. But not in the light of what the crisis has revealed. The crisis, as everybody knows, was brought on by a secular failure of **private banks** in the advanced economies, notably US and Europe. The crisis dealt a blow to the global economy from which it is yet to recover.*

...in the face of the failure of private banks during the crisis – and the appalling lapses in management and governance that it highlighted – for commentators in India to claim that privatisation is the answer to problems in our banking sector is quite a feat. It shows a certain disregard for the nature of the banking sector in general and the record of India's own banking sector over the past two decades.

... Critics of PSBs say that the government has no business to be in banking just as it has no business to be in airlines, steel or biscuits. It is because of government's presence in banking through PSBs that the burden of 'bailing out' PSBs from time to time falls on the tax payer.

The comparison is flawed. Banking differs from biscuits or steel in one crucial respect: a biscuit or steel company can be allowed to fail but a reasonably sized private bank cannot... because there are "externalities" attached to bank failure – the costs to the economy exceed the private costs of failure.

... putting banks in private hands is no insurance against failure ...

The costs of recapitalisation in India are amongst the lowest in the world. The financial crisis of 2007 was not an aberration...An IMF study has documented 140 episodes of banking crises in 115 economies in the period 1970-2011. The median cost of recapitalising banks was 6.8% of GDP.

The recapitalisation cost, however, does not capture correctly the cost to the economy – it is only a measure of the losses that have occurred in the banking system. The true cost is the loss of economic output following a banking crisis. A study carried out by the Bank for International Settlements estimate the annual loss of output on account of a banking crisis to be of the order of 3% every year.

... in over two decades since banking sector reforms commenced, we have not had a single banking crisis ...

India's public sector banks showed an improvement in efficiency until 2011-12. Analysts are apt to compare the performance of PSBs with that of private banks and point to relative underperformance of PSBs. Most of the analysis focuses on a snapshot of the figures for the past year or two. Such a comparison is highly misleading. We need to look at trends in performance over a longer period.

Thanks to listing on the exchanges and market discipline, a greater focus on commercial objectives, and tighter regulation, PSBs lifted their performance until the first decade of 2000. Their performance started deteriorating post 2011-12. The slowdown in the Indian economy in recent years and, particularly, the problems in Indian infrastructure have led to a sharp divergence in performance between PSBs and private banks.

The primary reason for this is that PSBs have a greater exposure to infrastructure and related sectors than private sector banks (whose books are more heavily weighted towards retail assets)... but if PSBs had not financed private infrastructure during 2004-08, we would not have got the economic boom of that period... ... the government should not have ceded its role in infrastructure development to the extent it did. It did so in order to contain its fiscal deficit. The impact on the fisc is being felt with lag through the losses of PSBs.

... we cannot overlook the fact that one reason why the Indian banking experience has been refreshingly different is that we happen to have a PSB-dominated system.

Overall, the system has shown an improvement in efficiency and stability.....given what we have learnt from the financial crisis, we can have a wholly private banking system and pay the high cost that goes with recurring financial crises or we can have a public sector-dominated system which we recapitalise periodically at a lower cost.

We need improvements in governance as well as management in PSBs. We certainly need more professional boards than we have had thus far... .. the crucial improvement required is a strengthening of management at all level at PSBs starting with the CEO having people from the private sector creates the potential for conflicts of interest. There is no dearth of expertise elsewhere – retired public sector bankers of eminence, former deputy governors of the RBI, academia. More importantly, re-creating public sector banks in the likeness of private banks is emphatically not the answer – indeed, it could create the basis for a banking crisis where none has obtained for over two decades.

Friends, the two articles have clearly redeemed the Bankers from the habitual and clichéd naysayers. This detailed message should lend clarity and drive home the point to the young Abhimanyus in the banking sector that we have meaningful support to our claims. This enhances our hope that many more such positive showers would bring down the heat on bankers. And, let us confidently continue our sincere efforts to put the Indian PSBs on a much stronger and higher pedestal.

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