ALL INDIA NATIONALISED BANKS OFFICERS' FEDERATION

(Registered under Trade Unions Act 1926)

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To

All Affiliates

Dear friends

Sub: **Unmasking the PSBs recapitalisation plan**

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Sometime back, there was lot of frenzy in the media and among the general public in the aftermath of the Indian Government announcing the approval of recapitalisation plan of Rs.2.11 lakh crore for the PSBs.

The news-hungry channels ran hours and hours of debates and panel discussions with participation from experts and analysts. Social media was agog with angry reactions from citizens who felt the honest tax-payers' money was being wasted for the *incompetence* of the *unprofessional* bankers, PSBs to be specific.

I do not wish to question the purport of those deliberations nor desire to expose their actual purpose, which is nothing short of sensationalism and craving for attention, though for a short while.

But, we, being in and part of the economic development of the country, should know the events and causes that led to recapitalisation. In this write-up, we shall understand and find out certain issues related to this.

The following questions influenced me to collect data on Capital plus Reserves of all the banks and Capital blocked due to provisioning and analyse such data in search of answers to the daunting questions.

1. Whether the capital of the Indian PSBs got eroded?
2. What happened to the capital which generated dividend to the investors till 2015, but, started eroding from 2016 onwards?
3. Whether the private banks are possessing strong capital?
4. How the payment banks and Small banks can survive with their capital of 100 crores and 500 crores when the PSBs with huge capital and reserve are identified to be closed or merged?
5. Whether the PSBs really need capital infusion or any other way to be adopted to release the blocked capital due to NPA?

The explanation to the above pointers and inferences on recapitalisation are summarised below.

- Financial Services Secretary Sri Rajiv Kumar explained that of the planned sum of Rs.2.11 lakh crore, recapitalisation bonds will account for Rs.1.35 lakh crore, while Rs.76,000 crore will come from budgetary support and equity issuance. Finance Minister Arun Jaitley added the key component or the background agenda of this plan when he said the ***recapitalisation would be followed by a series of reforms***, which he did not elaborate.

- Another member of the Press was more candid: "**The government's plan to recapitalise PSBs is a commendable one. Both the amount and the timing are appropriate. The Rs.2.11 lakh crore amount is the best possible number that experts have put on the table as required by banks. None expected the government will actually cough up so much. It takes care of all loan losses so far, a good 50 percent of the provisioning that may be needed for known cases of stress and enough growth capital to fund at least 10 percent growth for the next two years".**

- The cat is clearly out of the bag.

- This reports further states that "it is the timing that is impressive. It comes only after government and RBI took a series of steps ***to send a message to bankers*** and borrowers that they better shape up .... in Dec 2015, RBI forced banks to recognize a bunch of large stressed loans as NPAs, whether or not they were paying interest. Most of these were repaying only because ***bankers were lending them enough money in surreptitious ways*** to keep the account green".

- ***The disturbing phrases you would see above are the "recapitalisation would be followed by a series of reforms", "message to bankers", "bankers were lending enough money in surreptitious ways".***

- Let us take a detour and go back to the basics to understand and get clarifications on the government's so-called gesture to resurrect the ailing banks and the excitement of the fourth estate.

- A detailed look and review of the books of PSBs shows sound fundamentals as revealed the following data:

  - Ratio of paid up or issued capital to the authorised capital:

Up to 30	12 banks
Above 30 and up to 50	5 banks
Above 50	2 banks

  - Majority of the PSBs, i.e., 12 have issued just over one-fourth of their authorised capital. This is clearly indicates the true banks' strength of the banks and that there is much room for the raising further capital through this channel.
  - NPA provisioning of astronomical sums has been the bane of PSBs. NPA provisioning in proportion to paid up capital is as below:

Above 50 times of paid up capital	2 banks
20 to 30 times of paid up capital	5 banks
10 to 20 times of paid up capital	1 bank
Less than 10 times of paid up capital	11 banks

- Majority of the banks have made provisions of up to 10 times of their paid up capital. This is the crux of the problem and the real reason for erosion of capital.
- If these provisions were not required to be made, they would have been directly accounted to profits.
- The higher provision, account for loss in P&L Statement, also blocks the net worth by eating into the reserves and surplus.

➢ It is thus clear that if only the provisioning at high levels was not warranted, the fundamentals of PSBs would have been much stronger. And consequently the recapitalisation may not be necessitated.

Series of reforms

➢ And, why the government is keen to infuse capital? It is an alibi only to redeem the large non performing debt-ridden industrial houses in the first place. Once this is achieved, the hidden agenda will come to the fore. Much furore will be made about the ill-perceived inability of the state-run banks to effectively handle its asset and recovery portfolio, due to which the government had to interfere to safeguard the public money by infusing capital with fancy names like *Indradhanush*.

➢ The powers bestowed upon RBI under PCA to take mandatory action for breaching of thresholds are sky-high, draconian, and detrimental to the smooth fabric of public sector. RBI has already spread its tentacles in the form of PCA, which causes disruptions and pain.

➢ In the name of PCA, RBI has full powers to impose restrictions on recruitment, annual hikes, implement mergers, acquisitions, etc.

➢ All these doses will be gradually implemented to paint a picture of sickness and make the banks to become as sick as MTNL or Air India. Media will add its own fodder through talk shows and panel discussions to kowtow the government’s line of thinking and poison the public opinion against the PSBs. The final nail in the coffin will make the domestic taxpayers look askance at a tax-funded recapitalisation programme.

Message to bankers that they better shape up

- The next course of action will be to float, in the first place, a scheme for merger under the guise of strengthening the not-so-strong banks with other strong banks. Pruning the number of PSBs is an easy option to send a message to the bankers. Mergers will lead to downsizing – both branches and resources i.e., the employees. When branches are closed, why the banks will need so many staff? The seniors among the staff will be at the edge of the bridge and forced to take a call. If the younger staff members too are forced to feel the heat, there will be brain drain. Most of the younger staff members are armed with highly qualifications with multiple or master degree and they are not averse to testing the waters. Thus the roadmap would be neatly laid to convert the P in the PSB from 'Public' to "Private". By this time, the payment banks would have firmly established and commenced operations in full swing. The young resources, out from the PSBs, will be at the mercy of such payment banks for employment, sustenance, and livelihood. Unfortunately, they will have to settle for a pay package which could be no comparison to what they would be entitled to in a PSB.

Bankers were lending enough money in surreptitious ways

- What is the interest for the employees to do the so-called *surreptitious lending*? Bank employees are well aware of the Damocles sword hanging over their head in the name of 'accountability'. Can any employee risk employment hypothetically by accommodating a borrower through surreptitious ways? That there is much political interference in banks, especially at the board level, is no secret. When such vested interests are at play, the criticism of surreptitious lending cannot be cast on the poor bank employees.

- Next, the majority government ownership makes PSU bankers answerable to the CVC, CBI, CAG, and COURTS preventing quick decisions to accept some losses and forge ahead in hopeless cases. The four Cs make bankers prefer inaction to loss-reducing actions that may be questioned on hindsight. Against this fear, how can bankers be charged of surreptitious lending?

The recent unfortunate scam that has arisen out of operational risk is indeed a serious blot on the banking industry. Investigation is under way and full details are awaited. It is not proper on our part to rush into media / social media type chats, arguments. Maturity and wisdom should give us patience to wait for the full outcome.

In sum, take away the enormously high levels of provision back to reserves and surplus, no PSB would be requiring the recapitalisation package. On the other hand, government should persist with NCLT and bring sanctity to the service-oriented and nation-building motive of the PSBs. We earnestly feel that it is time the PSBs get rid of the famous whipping boy image.

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