Business Standard

Why it's sunset time for bilateral wage talks for state-run banks

What's dawning on all concerned is there is simply no way that state-run banks can dole out equal hikes to their staffers as has been the practice through the decades

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Last Updated at July 2, 2019 22:47 IST

Finance Minister Nirmala Sitharaman may have to guide all constituents to move from their rigid positions and look ahead

There is nothing more unequal than the equal treatment of unequal people", said Thomas Jefferson. It has taken state-run banks, and the Indian Banks' Association (IBA) more than half-a-century to realise this – it's the reason why the industry-wide wage pacts known as "bilateral agreements" – in effect since April 1, 1966 are now in tatters. The brotherhood of workmen and officers ' unions – the United Forum of Bank Unions (UFBU) – is no more; separate agreements with the IBA are on the cards.

It is a new formula under which state-run banks will be given the flexibility to pay their employees according to their profitability and capacity to absorb higher wage cost, which is the cause for the divide. It's never been tried out before; and how exactly it is to be executed is the burning question.

What's dawning on all concerned is there is simply no way that state-run banks can dole out equal hikes to their staffers as has been the practice through the decades. It was evident all along, but what's come to bite is that since FY16, provisioning by state-run banks has consistently exceeded their operating profits resulting in net losses – in FY18, the figure stood at Rs 854 billion.

And, unlike in the past, you have the Reserve Bank of India's (RBI) prompt corrective action (PCA) framework to contend with. Six banks are under it; it's anybody's guess as to how they are to account for the pay-outs involved. As for the five banks which walked out of the PCA post-recapitalisation in February this year, the exact status of their financials will be known only after their annual financial inspection reports for FY19 are placed before the RBI's Board for Financial Supervision.

Matters have reached a flashpoint and a few union leaders want to have an audience with finance minister, Nirmala Sitharaman, and RBI governor, Shaktikanka Das. And unlike in the past, few unions enjoy the political backing of the Left parties, given the changed political topography.

But still, pay us dear

Says Subash Sawant, general secretary of the Indian National Bank Employees' Federation: "Why should employees be held responsible for non-performing assets; they did not create it". He is alluding to the political interference in credit-decision making. "Banks are making operating profits. You can pay us from that", he insists. And, he holds a peculiar worldview – he is for the old system and says in the same breath that "nobody ever imagined a situation wherein most state-run banks will turn out to be loss-making".

Few chief executive officers (CEOs) of state-run banks want to go on record on the subject as the cadre within these banks is split; and to that extent, it is basically the management at these banks which also populates the IBA. It's understandable they don't want to be seen making contentious statements in public.

Off-record, the CEO of a state-run bank is clear that "stronger banks would like to go out of industry-wide negotiations and incentivise their employees", but hastens to add: "It (collective bargaining) is not going away any time soon. Such thoughts (on breaking ranks) are strong during the near completion of talks. Everyone forgets about it four years after a pact is signed!" It tells you something about the thought process within the system which can rival that of an ostrich.

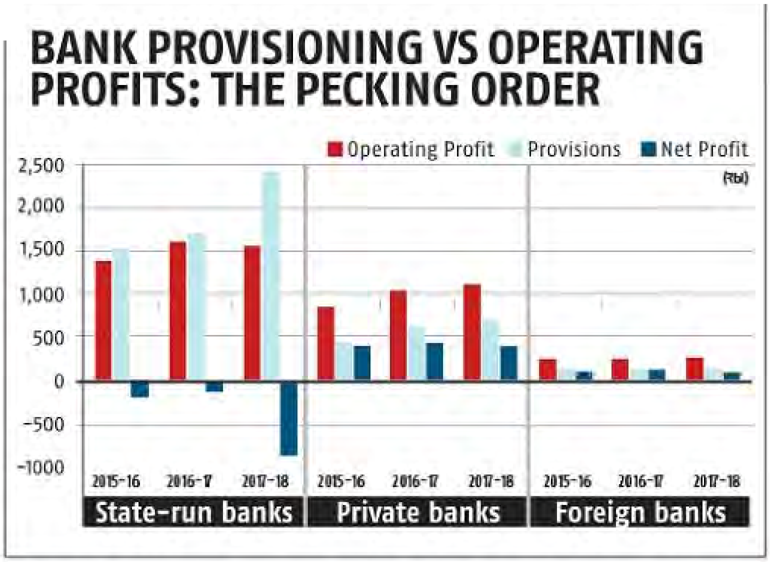
Another CEO of a south-based state-run bank says: "Many banks were under the PCA. So, talks started with the low offer of a three per cent hike in wages. As expected, this was rejected. Now, we are talking about a 10 per cent hike". He is candid enough to admit that "while many banks have been making provisions for the last 18-24 months, yet on-going provisions will impact the profitability in the current year".

It's also an oblique reference to RBI's June 7 circular, which replaced the instructions in the February 12 circular, which was struck down by the Supreme Court. Under the new guidelines, banks will have to pay a heavy price for non-implementation of a viable resolution proposal. If the delay exceeds 180 days from the end of the review period, they have to provide for an additional 20 per cent; and if over a year, it would be 15 per cent. In all, an additional provisioning of 35 per cent. This aspect was never factored in before the wage talks resumed on June 21.

Time for overhaul

"It's unsustainable for such differentials (salary) to continue without any adverse impact on recruitment and retention of talented managers (in state-run banks)", noted P J Nayak in his report to Review Governance of Boards of Banks in India (2014). While the reference was to CEO salaries in state-run banks vis-à-vis their private bank peers, the same could be extrapolated across all levels. The current impasse in wage talks should also be seen in this context.

Says Ankit Bansal, Founder-CEO of Sapphire Human Solutions: "A clear distinction has to be made between personnel issues and the HR (human resources) in these banks.



STATE-RUN BANKS TRAIL PEERS ON RETURNS

Bank group	Return on assets (%)		Return on equity (%)	
	2016-17	2017-18	2016-17	2017-18
State-run banks	-0.1	-0.8	-2	-14.6
Private banks	1.3	1.1	11.9	10.1
Foreign banks	1.6	1.3	9.1	7.2
All banks	0.4	-0.2	4.2	-2.8

Source: RBI

Both are not one and the same". That said, he is sympathetic too: "I feel that the unions have a point of view; and there has to be a meeting between their stated position and that of the authorities".

The last comprehensive report on HR practices in state-run banks was by A K Khandelwal, a former chairman and managing director of Bank of Baroda (Committee on HR Issues of State-run Banks) in June 2010: "Over the next five years, 80 per cent of general managers, 65 per cent of deputy general managers, 58 per cent of assistant general managers and 44 per cent of managers would be retiring. The pool of these experienced executives cannot be replaced only through promotions", he had observed. Alarm bells should have rung back then, but nothing much came out of it.

It brings us to the issue of lateral recruitment and differential pay. Says C H Venkatchalam, General Secretary of the All India Bank Employee's Association: "It is to be used sparingly for very special technical jobs. They should be at the junior levels. Banks have internal talent, which should be tapped first. Direct entry of specialists should be the last resort after excluding internal possibilities".

The reality is that such talent is being poached by private and foreign banks, the better among the non-banking financial companies (NBFCs), fintechs, and even e-commerce firms as well as telcos. This is especially for those with good credit, marketing, and technology skills.

Agamjeet Dang, managing partner at Executive Access, says: "It is high-time the issue of lateral recruitment in these banks were looked at given the emerging competition and complexities in banks". Adds Bansal: "If the government can do it (lateral recruitment) in the bureaucracy, why not at these banks", and adds bluntly: "While there may be individuals who are good, the truth is that these banks are no more the catchment areas they once were – be it for NBFC's, fintechs, private banks or foreign banks". Simply put, talent is walking out and not walking in as in the past.

The organisational aspect is as follows. There was a huge intake of staff between 1969 and 1984 to create a large branch network; in the period 1985-2000, there was little by way of fresh recruits as the emphasis was on officer-level posts being filled up by promotions from the clerical cadre, but the average age of employees rose. In FY02, a voluntary retirement scheme was offered to all those who had put in 15 years of service: it saw two lakh bid adieu. It opened up the promotion window, and soon, recruitment resumed. But today, these banks have two dominant demographics: 50s and under 30s. The younger lot continues to get increasingly restless.

data point bears it out: In FY10, when the State Bank of India embarked on a huge financial inclusion drive, 18,931 walked in for the 25,327 clerical posts, but only 5,728 remained at their desks by the end of the year. This was not a one-off, but a trend: it was 25,735, 30,231 and 3,834 in 2008-09; and 4,012, 5,638 and 1,462 in 2007-08. Current granular data is not available, but there is no reason to believe a lot many more continue to stay put at their desks.

It was K C Chakrabarty, former deputy governor of RBI, who said: “You need to manage people – and for this you need to discriminate between them, I mean positive discrimination”. That time is well upon us.