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Banking sector: More of a crisis than opportunity

5 Jul 2017 DEVANGSHU DATTA
Business Standard

The NPA situation is likely to get worse. The Reserve Bank of India's (RBI's) Financial Stability Report projects gross non-performing assets (NPAs) could rise to over 10 per cent, or even 11 per cent of all advances in a worst case scenario by March 2018. In March 2017, about 9.6 per cent of gross NPAs were logged. Credit offtake declined to historic lows in March 2017, when credit growth dropped to 0.8 per cent for public sector banks and to 4.4 per cent overall, with foreign banks seeing credit shrink by 8.6 per cent.

There are some positive signals. NPAs are growing at slower rates. As interest costs have fallen, spreads have improved. Many banks have diversified revenue streams. By March 2017, 36 per cent of operating income was from non-interest income. Fee income stabilised at just above 10 per cent of total operating income. Profits on trading securities have risen to over 10 per cent from about five per cent (March 2016). This is only sustainable in a benign interest regime.

RBI ran a three-scenario set of multivariate stress tests on 55 banks using macro-economic variables, with an assumed baseline, a "medium stress" level and a "severe stress" level. The variables included GVA (gross value added) growth, inflation, interest rates, gross fiscal deficit, current account balance, exports, etc. Under the baseline, gross NPA may deteriorate to 10.2 per cent by March 2018. In the severe scenario, RBI estimates gross NPA could rise to 11.2 per cent.

RBI says, "A severe credit shock is likely to impact capital adequacy and profitability of a significant number of banks". The overall capital adequacy ratio (CAR) was at 13.6 per cent in March 2017. Depending on stress levels, 2 banks (baseline) to 6 banks (severe) could have CAR dipping below the required 9 per cent. One bank could see Tier 1 capital drop below the required 5.5 per cent of risk-weighted assets.

RBI doesn't name banks. But, these are all likely public-sector banks (PSBs). The real problems are on PSB balance sheets. That's where the vast majority of NPAs lie. There is also concentration risk. Assume the top three borrowers of any given bank default; 12 banks would see their respective CAR drop below 9 per cent. Even if one top borrower fails, profit before tax may be wiped out. The key sectors are infrastructurerelated. About 34 per cent of all stressed loans are in power, transport and telecom, which are riddled with bad debts and stalled projects. Associated sectors like mining (21 per cent of all mining advances), cement (35 per cent), metals (46 per cent), vehicles & transport equipment (26 per cent), construction (25 per cent) are in bad shape.

Demand in associated sectors depends on health and activity in infra. A turnaround in infra requires a big committed policy push from the political establishment to restart stalled projects and enable dead assets to be written off. It will require lenders to take big haircuts to recover some portion of principal. Banks, especially PSBs will also need mass recapitalisation.

This is clearly a crisis. Since stressed loans equate to roughly nine per cent of GDP, there is urgency. The political establishment has tried to speed up bad loan resolution with enabling legislation. RBI and Sebi have also improved the regulatory environment. But on the other hand, the write off of agricultural loans will further add to balance sheet stresses and that's likely, given multiple farmer agitations.

Broad growth can only be sustained by a healthy banking sector. There must be sharp improvement in PSB balance sheets. Perhaps, the crisis is serious enough to trigger appropriate policy response. If so, this represents an opportunity since valuations of PSBs are low. On the other hand, it could be a catastrophe if it's not tackled well.

Essar Steel drags RBI to court over insolvency proceedings

OUR BUREAU MUMBAI, JULY 4

THE HINDU BusinessLine

Essar Steel has filed a petition in Gujarat High Court challenging Reserve Bank of India's decision to refer it to the NCLT under the Insolvency and

Bankruptcy code. The case will come up for hearing on July 7. While 12 companies were named by the Reserve Bank of India, according to industry sources, almost all the companies named on the list are likely to file petitions in court.

Legal sources said that some of the companies named on the list are upset with the manner in which the central bank has taken the decision. "The main issue being raised by some of these borrowers is that RBI directive to banks made an arbitrary distinction between the 12 identified companies and the rest.

While the RBI directed banks was to refer the 12 identified cases directly to NCLT, other stressed borrowers were given a six-month period to arrive at a resolution with their lenders," said a lawyer representing one of the companies.

"Further, some borrowers have pointed out that the cut-off date of March 31, 2016, itself is arbitrary as it does not take into account the subsequent developments in the companies' performance," the lawyer added.

When contacted an official spokesperson for Essar said, " Essar Steel has moved the Gujarat High Court, which has posted the matter for hearing on July 7, 2017."

Insolvency proceedings against Essar Steel stayed

Hearing Essar's plea, the High Court also directed the RBI to explain what it meant by according priority to the 12 insolvency cases by the NCLT

RBI likely to challenge Gujarat HC order

SURESH P IYENGAR & K RAM KUMAR
MUMBAI, JULY 5

THE HINDU BusinessLine

In a move that could impede the Reserve Bank of India's efforts to clean up the bad assets in the banking system, the Gujarat High Court has stayed further proceedings by the National Company Law Tribunal on the insolvency petition filed by the lenders against Essar Steel.

Though the stay is only relevant for Essar Steel, and that too till the court's next hearing on July 7, the other 11 companies named by the central bank under the Insolvency and Bankruptcy Code may take similar recourse if proceedings at the Tribunal are not allowed to continue by the High Court.

'Arbitrary distinction'

Essar Steel had moved the Gujarat High Court claiming that the RBI's decision to refer it for insolvency proceedings was arbitrary. The RBI had on June 13 issued a directive asking banks to initiate insolvency proceedings at the NCLT benches against 12 specific cases of non-performing assets (NPA).

This included players such as Essar Steel, Jyoti Structures and Bhushan Steel. The main issue being raised is that the RBI's directive to banks made an arbitrary distinction between the 12 identified companies and the other large NPAs. While the RBI directed banks to refer the 12 identified cases directly to the NCLT, other stressed borrowers were given a six-month period to arrive at a resolution with their lenders. Hearing the plea by Essar, the High Court also directed the RBI to explain what it meant by according priority to the 12 cases of insolvency by the NCLT.

The court also stayed further hearing on the insolvency petition filed separately by Standard Chartered Bank, which was not part of the Joint Lenders Forum, against Essar Steel in the Gujarat Bench of the NCLT.

Referring to the RBI notification in the form of press release, Justice SG Shah said the effective date taken by the RBI for initiating action against the defaulting companies was March 31, 2016 though the press release is dated June 13, 2017. If at all the RBI has powers to classify such companies, it has been made on details available as on March 31, 2016 and not as on June 13, 2017, said the order.

Essar Steel said the company has been doing well and has managed to pay back Rs.3,476 crore of debt over the past year. With the forcible invocation of the Insolvency and Bankruptcy Code, the administration of the company will go into the hands of Interim Resolution Professional and result in closure of the company, argued Essar Steel. Essar Steel owes Rs.31,200 crore to its lenders.

RBI to counter

A senior public sector bank official said on condition of anonymity: "The choice of the companies for referral to the NCLT is not arbitrary. There is no attempt to single out any company for action. It is just one among a dozen odd companies that banks have moved against under the IBC. In fact, action is being contemplated against other corporates too."

“If Essar Steel’s contention is upheld, the very purpose of enacting the IBC will be defeated. Other large stressed borrowers may approach high courts to stall the NCLT proceedings,” he added.

The RBI is expected to strongly challenge the company’s position by stating that it has been transparent in zeroing in on the large stressed borrowers that banks need to proceed against. The RBI’s internal advisory committee comprising independent directors met in Mumbai and will take a call in this regard.

SC gives Centre, RBI time to devise plan for depositing demonetised currency

BY PTI | JUL 05, 2017
THE ECONOMIC TIMES

NEW DELHI: Chief Justice of India JS Khehar on Tuesday asked the Narendra Modi government to consider giving one last window to people who have been stuck with old notes for genuine reasons stating that money, which was akin to property of a citizen, cannot be taken away by the government just like that.

"You had a window, you chose not to exercise it," CJI Khehar said, demanding answers from Solicitor General (SG) Ranjit Kumar. "Why do you choose to take such a recourse?" the CJI asked months after the dust over the government's demonetisation had settled down.

The Solicitor General, after initially stating the government had taken a policy decision to this effect and had not considered individual cases, promised to get back to court with instruction from the government on whether it could have a designated authority which people could approach.

The second senior-most law officer of the government tried to point out that the government had reviewed and cancelled earlier orders according to the ground situation and demonetisation had uncovered a lot of black money, but back-tracked under court pressure, effectively nullifying any assurances of letting people deposit old notes by March 31, 2017.

He will revert to the court by July 18. CJI Khehar, in a shift from his earlier hands-off approach to policy measures, said money was like "property".

Right to property, which used to be a fundamental right earlier, is now a legal right. Citizens cannot be deprived of property without following due process and without adequate compensation.

"We have a duty to caution you that this doesn't fall in the category of absolutely unable," he said, hinting that the government could address genuine cases. A person could be stuck abroad or terminally ill or in jail, the CJI said.

"If I can prove and establish that it is my money, you cannot deprive me of my property. That would be wrong." In any case, you could reject all such claims, the CJI said. The Solicitor General tried to argue that the government notification did not talk about any such window. But the CJI countered it by saying that it should have had one. "If there is a genuine person, he should have the opportunity if he has failed to deposit for a valid reason. You can't take his money away, it is his money," the CJI said. The CJI was insistent that the government must ascertain if any case was genuine and then take a call. Among those who argued for such a window were some overseas Indians, a woman who discovered Rs 1 lakh months after her husband had died and a lady who was ill etc.

All of them have claimed in court that they did not seriously pursue the Dec 31 deadline because of promises held out by the prime minister and the government that they could deposit it with the RBI by March 31, 2017. But the RBI turned them away citing lack of powers, and the government did not entertain them either.

Union claims HSBC Malaysia forcing staff to leave via VSS

malaymail online **By Ida Lim** **The Malay Mail Online**July 6, 2017

Solomon urged for the authorities to urgently intervene, saying that the Human Resources Ministry should take stern action on banks that allegedly 'create unjustified unemployment in order to prevent job losses' and victimise workers. — Reuters pic

KUALA LUMPUR, July 7 — HSBC Malaysia is allegedly forcing its employees here to leave the bank through the Voluntary Separation

Scheme (VSS) despite the scheme's voluntary nature, National Union of Bank Employees (NUBE) has claimed.

NUBE general secretary J. Solomon claimed that HSBC employees affected by the VSS scheme come from the "senior lowest-income group" and that they are replaced at the same time by new hires.

"Though HSBC claims it is voluntary, on the contrary those who refuse to opt for the VSS are being threatened and intimidated by forcing them to accept the VSS or be subjected to vindictive transfers," he claimed.

He claimed that an active NUBE representative in the bank, identified as T. Sethupaty, was given the VSS letter on February 13 but refused to accept the offer.

This union representative was then allegedly issued with a transfer letter to a bank branch 60km away from his current workplace, and was then directed to hand over his work and turn up this month at his new workplace despite not having consented to the transfer, he said.

The bank is also purportedly outsourcing Sethupaty's job functions to a company which operates from the bank's premises, he said.

"Despite the worker’s appeal against the arbitrary transfer on critical health condition among others, the bank is adamant to implement the transfer.

"We hope the victimisation does not affect his health, he needs the employment and will not leave the company. He is also not willing to succumb to the victimisation done through the transfer. Anyway why should he leave?” Solomon asked.

Solomon said over 230 employees from HSBC have been laid off through two VSS exercises — one early last year and one in February 2017.

Those who left via VSS range from ages of around 30 to 45 years old and are "long-serving non-executive workers comprising of drivers, messengers, clerks and special grade clerks", he said.

He said over 80 per cent of HSBC's employees are NUBE members, adding that a collective agreement (CA) covers all non-executive staff in HSBC regardless of whether they belong to the union.

The collective agreement is between NUBE and the Malayan Commercial Banks Association (MCBA) of which HSBC is a member of, he said, adding that it would be legally binding on HSBC.

He named the five terms of the collective agreement that HSBC had allegedly breached, namely Articles 4(2), 6, 14(4), 15(3), and 16(4).

Among other things, he claimed that the bank has refused to engage with NUBE despite the requirement for it to be recognised as the sole negotiating body for employees who are also union workers, adding that it had also breached the mandatory requirement for consultations before outsourcing NUBE members' job functions.

He claimed that the CA was also breached when the bank did not consult Sethupaty to seek consent for the transfer and the latter only found out through a letter, adding that the bank allegedly failed to notify NUBE members about available vacancies in the bank as required.

Malay Mail Online has contacted HSBC for a response but was unsuccessful.

Solomon indicated that the alleged misuse of VSS is a wider industry issue, arguing that this scheme should not be practiced.

"It's the bullying of long serving workers with the intention of getting rid of them.

"Due to poor regulation and condonation on the part of BNM and Ministry of Human Resources, some Banks are abusing the use of VSS," he said.

"The VSS which was supposed to be voluntary has now become a form of forced laying off senior workers causing unemployment of these seniors. Eventually this will result in eroding livelihood of these workers who do not have adequate social protection," he said, adding that most workers take the VSS for fear of uncertainty.

Solomon urged for the authorities to urgently intervene, saying that the Human Resources Ministry should take stern action on banks that allegedly "create unjustified unemployment in order to prevent job losses" and victimise workers.

"BNM and MOF should be vigilant and stop unilateral outsourcing and should engage the Union when giving blanket approval to Banks which will have negative impact on workers," he said, referring to the central bank and the Finance Ministry.

According to the Human Resources Ministry's written parliamentary replies from the October-November 2016 meeting, employees can either have their services terminated through contract termination by employers or go through the VSS method where their offer to leave will be accepted along with typically higher compensation granted.

Chinese bank staff close to retching counting huge stash of mouldy notes hidden under bed

Money was stored by elderly couple for three years at their home in Sichuan province, according to newspaper report

Thursday, 06 July, 2017, SOUTH CHINA MORNING POST

Employees at a bank in southwest China spent 11 hours fighting back the urge to vomit while counting 200,000 yuan (US$29,400) of fetid, mouldy banknotes stored by an old couple under their bed for three years, a local newspaper reported.

The cash was given to the couple at a village in Chengdu in Sichuan province for safe keeping by their daughter three years ago, the *Chengdu Commercial Daily* reported.

The daughter, who needed the money for the down payment on a house, asked her parents to give her the money back.

When the three of them opened the box where her parents hid the cash under their bed, they were shocked to find the banknotes covered in mould and sticky.

The daughter stuffed the money into a shopping bag and brought it to a bank the first thing the next morning, hoping to exchange the Notes

"The smell was very pungent, with a rotten odour," the manager of the bank told the newspaper, adding that a bank teller immediately started retching after she opened the shopping bag.

Six employees were tasked to count the banknotes. They stayed two extra hours at work, but still could not finish it and had to continue the next morning.

"We had to separate each note from each other, one by one. We have to be very cautious," an employee was quoted as saying.

They also had to dry the money with a hair dryer before they could put them into a currency checker.

"We had to insert each banknote into the machine many times even after blow drying them," the employee said.

About a third of the banknotes were damaged and 247 "crumbled at the slightest touch", he said.

The bank finally exchanged 193,000 yuan for the daughter.

AIBEA THIS DAY – 7 JULY	
1994	**High Power Committee of 4 Unions starts wage revision discussions with IBA (7th Bipartite)**
2002	**AIBEA Delegation leaves for Damascus on trade union leadership interaction programme. (Com. K Vijayan, Dushyant Trivedi, N K Bansal and N S Ravindranathan)**
2004	**Strike in Syndicate Bank; Capital Dilution**

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