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NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Social media reports on closure of some public sector banks are false, baseless: IBA

July 24, 2017 Our Bureau /BUSINESSLINE

Indian Banks' Association, the self-regulatory body of banks in the country, has termed as false and baseless reports doing the rounds in social media about the adverse financial strength and future of some public sector banks arising out of Reserve Bank of India's prompt corrective action (PCA).

The Association said the PCA framework, which has been in existence since 2002, has been initiated by the RBI in respect of some public sector banks where certain thresholds on capital and asset quality have been breached.

"The corrective measures under PCA will help improve the overall performance of these banks. IBA assures the general public and depositors that there is no cause for fear or panic and they should not fall prey to false reports and their money is safe," the Association said in a statement.

The RBI has so far initiated PCA for Indian Overseas Bank, IDBI Bank, UCO Bank, Dena Bank, Central Bank of India, and Bank of Maharashtra. PCA has been initiated in view of high net non-performing assets and negative return on assets of these banks.

Referring to misinformed communication circulating in some sections of media including social media, the RBI, on June 5, emphasised that the PCA framework is not intended to constrain normal operations of the banks for the general public.

“The Reserve Bank, under its supervisory framework, uses various measures/tools to maintain sound financial health of banks. The PCA framework is one such supervisory tool, which involves monitoring of certain performance indicators of the banks as an early warning exercise and is initiated once such thresholds as relating to capital, asset quality, etc. are breached,” the RBI said.

The objective of PCA is to facilitate the banks to take corrective measures, including those prescribed by the Reserve Bank, in a timely manner, in order to restore their financial health.

The framework also provides an opportunity to the Reserve Bank to lend focussed attention on such banks by engaging more closely with the management in those areas.

Cabinet clears ordinance to amend Banking Act to tackle NPAs

A bill to authorise the RBI to direct banking companies to resolve the problem of stressed assets was on Monday introduced in the Lok Sabha by Finance Minister Arun Jaitley.

The Banking Regulation (Amendment) Bill, 2017, seeks to amend the Banking Regulation Act, 1949 and replace the Banking Regulation (Amendment) Ordinance, 2017, which was promulgated in May this year.

The measure allows the RBI to initiate insolvency resolution process on specific stressed assets.

The RBI would also be empowered to issue other directions for resolution, appoint or approve for appointment, authorities or committees to advise the banking companies for stressed asset resolution.

Jaitley introduced the Bill amid protests in the House by opposition members protesting over the alleged incidents of lynching by cow vigilantes in different parts of the country.

Just before the bill was introduced, Trinamool Congress member Sougata Ray said he was opposed to the banking regulation ordinance and said it was a "desperate step by a desperate government".

Non-performing assets of banks have risen to over Rs 9 lakh crore and now RBI is being given power to refer the cases to Insolvency and Bankruptcy Board, he said.

"It is the same RBI which had not been able to count notes (since demonetisation). Giving such powers to RBI will detract it from macro-economic to micro-economic issues and render the bank management useless," Roy said

He demanded that the bill be referred to the Parliamentary Standing Committee.

When Speaker Sumitra Mahajan asked Jaitley if he has to say anything on Roy's remarks, the Finance Minister said the issues does not relate to the introduction and would be dealt with when the bill comes up for a discussion.

Moving on fast-track, the RBI had in June identified 12 large loan defaulters who account for 25 per cent of the total bad loans in the banking sector.

Action under the Insolvency and Bankruptcy Code has already begun in certain cases, including Essar Steel, Bhushan Steel and Bhushan Power & Steel.

₹200 note will fill missing middle: SBI

Press Trust of India New Delhi, July 23: businessline

Introduction of a ₹200 note will fill in the “missing middle” even as the new currency in circulation (CIC) has already reached 84 per cent of the pre-demonetisation level, says a report.

Cash with banks, a CIC component, has however witnessed a decline over November 2016 level, said the State Bank of India Ecowrap report.

Data for June 23, 2017 shows cash in hand with banks declining to 5.4 per cent of the currency in circulation from a high of 23.19 per cent for the fortnight ended November 25, 2016, it said.

Going by historical trends, cash in hand with banks is roughly 3.8 per cent of CIC and is currently at 5.4 per cent.

This means at least an additional amount of 1.6 per cent or ₹25,000 crore of excess currency may be currently lying in ATMs and herein lies the importance of new ₹200 notes, which could serve as the "missing middle", the report said.

The report added that Reserve Bank had recently "put orders" for it.

"The cash in hand with banks has been higher compared to the last year, because of demonetisation and the subsequent limits placed on withdrawals for some time. However, now the percentage is showing a decline and reaching pre-demonetisation levels," it added.

The report noted that though there has been a significant move towards relocating distribution of currency towards smaller denominations post demonetisation, there is a mismatch caused by the ₹2,000 note, which is the next biggest denomination after ₹500 denomination.

Moreover, an ATM machine typically holds 10,000 bills and if these were to comprise say only notes of ₹100, the number and cost of replenishment goes up significantly.

"Notes of Rs. 2,000 denomination in ATMs may find few takers because of missing middle/Rs 200 note," the report said.

MPC members to get Rs. 1.5 lakh per meet, disclose assets every year

PTI New Delhi, July 23: BUSINESSLINE

The government appointees on the powerful Monetary Policy Committee will be paid Rs. 1.5 lakh per meeting along with air travel and other reimbursements, but will need to observe a "silent period" seven days before and after the rate decision for "utmost confidentiality".

The silent period and confidentiality requirements will also apply to the three RBI members, including the Governor, on the panel that has been deciding on policy rates since October last year, the central bank has said.

The members of the RBI Governor-chaired panel, which has to hold meetings at least four times in a year, are also required to be mindful of any conflict between their personal and public interest while interacting with profit making organisations and making personal financial transactions, the Reserve Bank said in its newly notified regulations for functioning of the committee.

The six-member MPC, constituted in September 2016, has three persons appointed by the central government while the rest, including the Governor, are from the RBI.

The members appointed by the government would "receive a remuneration of Rs. 1,50,000 for devoting time and work for each meeting of the committee... which they attend and other expenses relating to air travel, local transportation and accommodation as may be decided by the central board from time to time," as per the regulations.

The panel is required to meet at least four times in a year and the RBI has been convening a bi-monthly meeting of this committee.

Chetan Ghate, professor at the Indian Statistical Institute, Pami Dua, director at the Delhi School of Economics and Ravindra H Dholakia, professor at the Indian Institute of Management, Ahmedabad are the three government-appointed members.

Their appointment is for a period of four years or until further orders, whichever is earlier.

Apart from RBI Governor Urjit Patel, Deputy Governor Viral V Acharya and Executive Director M D Patra are also part of the committee.

The regulations do not mention whether any separate allowance would be given to the RBI members on the committee.

Earlier this year, Patel and his deputies got a big pay hike with the government more than doubling their basic salary to Rs. 2.5 lakh and Rs. 2.25 lakh per month, respectively.

The "basic pay of the Governor and Deputy Governors" have been revised retrospectively with effect from January 1, 2016 and marks a huge jump from Rs. 90,000 basic pay so far drawn by the Governor and Rs. 80,000 for his deputies.

According to the Monetary Policy Committee and Monetary Policy Process Regulations, 2016, MPC members should also take adequate precaution to ensure utmost confidentiality of its policy decision before that is made public and preserve confidentiality about the decision making process,

These regulations were notified by the RBI earlier this month.

"While interacting with profit-making organisations or making personal financial decisions, they shall be mindful of, and weigh carefully, any scope for conflict between personal interest and public interest," the regulations said.

Each member of the MPC has one vote and in case the numbers are equal, the governor has the casting vote.

The MPC, which has the responsibility of achieving a set inflation target, should submit a report to the government in case of failure to achieve the required target.

In such instances, the report shall be sent to the central government "within one month from the date on which the bank has failed to meet the inflation target".

The regulations further said the schedule of the MPC meetings for the entire fiscal year needs to be announced in advance. At least 15 days of notice is required for convening a meeting ordinarily, but an emergency meeting can be called with 24 hours notice for each member and technology-enabled arrangements need to be made for even shorter notice period meetings.

All members need to disclose their assets and liabilities and update this information once every year.

"Members shall observe a silent or blackout period starting seven days before the voting/decision ray and ending seven days after the day policy is announced. During this period, they will avoid public comment on issues related to monetary policy other than through the MPC's communication framework," the RBI said.

Also, members cannot reveal outside the committee any confidential information accessed during the monetary policy deliberations.

After conclusion of MPC meeting, a resolution needs to be made public including on the policy repo rate and any other monetary policy measures at the discretion of the Chairperson while keeping in view the functioning and timing of financial markets

Bank of England warns of complacency over big rise in personal debt

Banks, credit card companies and car loan providers told they face action against reckless lending

The Guardian 24 7 17

The Bank of England has told banks, credit card companies and car loan providers that they risk fresh action against reckless lending as it warned of a looming "spiral of complacency" about mounting consumer debt.

In its toughest warning yet about the possibility of a rerun of the financial crisis that devastated the economy 10 years ago, Threadneedle Street admitted it was alarmed about the increase in the amount of money being borrowed on easy terms over the past year.

"Household debt – like most things that are good in moderation – can be dangerous in excess", Alex Brazier, the Bank director for financial stability, said in a speech in Liverpool. "Dangerous to borrowers, lenders and, most importantly from our perspective, everyone else in the economy."

Brazier's said there were "classic signs" of lenders thinking the risks were lower following a prolonged period of good economic performance and low losses on loans.

The first signs of the Bank's anxiety about consumer debt came from its governor, Mark Carney, a month ago, but Brazier's comments marked a ratcheting up of Threadneedle Street's rhetoric.

"Lenders have been the lucky beneficiaries of the benign way the economy has evolved. In expanding the supply of credit, they may be placing undue weight on the recent performance of credit cards and loans in benign conditions," Brazier said.

The willingness of consumers to take on more debt to fund their spending helped the economy grow strongly in the six months after the EU referendum, a period when the Bank expected growth to fall sharply.

Over the past year, Brazier said, household incomes had grown by just 1.5% but outstanding car loans, credit card balances and personal loans had risen by 10%.

He added that terms and conditions on credit cards and personal loans had become easier. The average advertised length of 0% credit card balance transfers had doubled to close to 30 months, while advertised interest rates on £10,000 personal loans had fallen from 8% to around 3.8%, even though official interest rates had barely changed.

The past decade has seen the number of cars bought with a personal contract purchase (PCP) plan – under which the car is effectively leased – increase from one in five to four in five. Companies risk losing money if used car prices fall and Brazier said banks involved and the shareholders of car companies would "want to think very carefully about the risks".

He added that developments in mortgage debt had been much less striking than those in consumer debt and car finance, with lending for home loans up by just 3% over the past year. "But even here there are some tentative signs of boundaries being pushed," he said.

Strong competition for business was resulting in more lending at higher loan-to-income (LTI) multiples, with the share at an LTI above 4 increasing from 19% to 26% over the past two years.

"Lenders have not entered, but they may be dicing with the spiral of complacency," Brazier said, noting that as credit became cheaper it was taken up more widely and was serviced more easily.

"The spiral continues, and borrowers rack up more and more debt. Lending standards can go from responsible to reckless very quickly. The sorry fact is that as lenders think the risks they face are falling, the risks they – and the wider economy – face are actually growing," Brazier said.

The Bank director said banks and building societies were being supervised and had to prove to the regulator that they had safeguards in place against entering the spiral of complacency. Lenders were also being regularly stress tested to ensure that they could deal with very severe recessions without cutting back on their lending.

In addition, the Bank had forced lenders to hold more capital in order to make them more resilient to losses on their loans.

"By September we will have assessed whether the rapid growth has created any gap in the line. If it has, we'll plug it," Brazier said.

Brazier said the defence lines did "not eliminate the risks that borrowers and lenders take on when entering into a loan" but that they "safeguard everyone else – the wider economy – from collateral damage. They mean there's every prospect that we can make the economy a safer place than it has been in the past and that we can stop watching endless repeats of Debt Strikes Back."

His speech came just a fortnight before the 10th anniversary of the start of the global financial crisis in August 2007.

"Ten years ago, an unsafe financial system caused financial crisis and economic disaster", he said. "The western banking system had expanded rapidly. Banks – and their regulators – had been blind to the basic fact that more debt meant greater risk of loss.

"Complacency gave way to crisis. Companies and households were unable to refinance their debts. The result was economic disaster. In this country alone, close to a million jobs were lost and more than 100,000 businesses failed. Too much debt made the financial system, and the economy, unsafe. Too many people paid the price when those risks materialised."

AIBEA THIS DAY – 25 JULY	
1955	**Bank Award Commission Report findings released.**
1995	**Strike by RRB Employees on 6th Bipartite wage parity.**
2006	**National Convention of Workers in Delhi. AIBEA participates.**

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