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NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

'Banks may need 20% incremental provisioning for 50 large NPAs'

PTI MUMBAI, AUG 3: BUSINESSLINE

Banks may need to do an incremental provisioning of 20 per cent for 50 large stressed accounts to absorb any losses, says a report.

These 50 large accounts are from sectors such as construction, power and metals, among others, and constitute about half of the gross non-performing assets of the banking sector.

"Banks may require an incremental provisioning of 20 per cent against cumulative debt of 50 large stressed assets worth over Rs. 4.3 lakh crore," says a joint report by Assocham and rating agency Crisil.

While banks may have already provisioned for a part of these exposures, they need to adequately capitalise to absorb such losses, which could fuel credit growth and support the next leg of economic growth, it said.

On the Insolvency and Bankruptcy Code (IBC), the report said there is a need to address various challenges such as inter-credit conflicts, ability of large corporates to delay the recovery process and burden on the National Company Law Tribunal (NCLT)/ Debt Recovery Tribunal (DRT).

Roll-out of the ecosystem, including adequate number of tribunals, insolvency professionals and information utilities, a limited timeline for the formulation of resolutions and access to the secondary market are needed in case of liquidation for successful implementation of the IBC, it said.

"The success of the code hinges on strengthening its ecosystem, which will help in protecting the interest of stakeholders, instilling financial discipline among borrowers and creating a robust platform to attract investors," the report noted.

It said though the IBC is expected to face teething troubles before fully taking off, its stakeholders are expected to reap greater benefit in the long run.

RBI's MPC statement: An omission on China

NS VAGEESH BUSINESSLINE

With India-China border tensions rising, the RBI could have spelt out its risk perception

MUMBAI, AUGUST 3:

The Reserve Bank of India's monetary policy statement gives a bird's eye view of global developments and the state of top economies in the world every two months and by extension the developments that have a bearing on the domestic economy.

The statement normally contains a reference to the heightened risks that are visible across economies — both advanced and emerging — and although couched in generalisms, does flag those issues that can have a potential negative effect on our trade and commerce.

This time, there was an expectation or perhaps curiosity about how the RBI would deal, in its international tour de force, on the border tension with China that has been dominating the headlines for the past month.

China is, after all, our main trade partner with annual bilateral trade at about $71 billion, although weighted in their favour. A couple of thousand soldiers are said to be standing eyeball to eyeball at the Doklam plateau in the tri-junction on the Indo-China-Bhutan border.

And though there has been no actual shooting, the war of words has been going on with snide remarks from the Chinese officialdom about teaching us another lesson — a reference to the 1962 border war that India got bruised in.

Would there be any caution or warnings from the RBI about possible negative impact on trade, one wondered.

Well, the answer to that question was simply that the RBI bypassed it. There was no reference to the problems that have bedevilled the ties recently.

Perhaps, it is in keeping with the official Indian stance of not ratcheting up tensions even more and avoiding any sign that we are 'over-reacting' to Chinese provocations. Or, may be a confidence that the problems are temporary and will not hurt the trade channel at all.

If you were a trader with exposure to China, you would certainly want to know what to make of the RBI's risk perceptions at the macro-level.

It's therefore surprising that the statement makes no reference to China — except to mention that economic growth was regaining some lost ground there in the second quarter and that Chinese demand had increased global metal prices.

Perhaps, the RBI too is playing the diplomatic game.

Banks should reduce rates for existing borrowers too: RBI

SPECIAL CORRESPONDENT MUMBAI, AUGUST 02, 2017 THE HINDU

Governor Patel sees scope for more cuts in interest on loans priced off base rate

With commercial banks having a tendency to reduce interest rates only for prospective customers in order to push new business, Reserve Bank of India (RBI) Governor Urjit Patel said he expected lenders to pass on lower loan costs to borrowers who had not received the full benefit of the reductions in the policy rate.

On Wednesday, the RBI cut the policy repo rate by 25 basis points (bps) to 6%. A percentage point comprises 100 bps.

The banking regulator noted that banks mainly reduced rates for segments where competition was high as in the case of home loans and personal loans.

"The way to look at the transmission is to determine what has been the case since we started the easing cycle," Mr. Patel said. "On new lending, the transmission has been much stronger, specially in those segments where there is lot of competition - housing loans, personals loans where the NBFCs also play a big part."

The central bank has reduced the repo rate by 200 bps since January 2015.

MCLR and base rate - the divergence

Bank	1-year MCLR	Base Rate
SBI	8%	9%
ICICI Bank	8.2%	9.1%
HDFC Bank	8.15%	8.9%

 # MCLR is the marginal cost of funds based lending rate - the benchmark for all loans - that came into effect from April 1, 2016, replacing the erstwhile loan pricing mechanism, the base rate.

While banks cut the marginal cost of funds based lending rate (MCLR) sharply in January — by up to 90 bps — the reduction in the base rate, which was the earlier loan pricing regime, was much lower. Since MCLR has been operational only from April 2016, a large proportion of loans are still linked to the base rate and such borrowers have not benefited to the extent of the new borrowers.

"The loan portfolio that is tied with on account of base rate and liabilities of longer nature the transmission has been slower," Mr. Patel said. "Given the liquidity conditions prevailing and that we have reduced the policy rate by a substantial amount since the easing cycle started, I think there is scope for banks to reduce" rates for borrowers who have not yet gained the full benefit of the RBI's policy rate cuts, he added.

The difference between the base rate and MCLR, for some banks, is as high as 90-100 bps.

For example, State Bank of India's MCLR is 8% and its base rate is 9% and for ICICI Bank, MCLR is 8.2% and base rate is 9.1%.

The RBI said it will address Base Rate rigidity to improve transmission.

"Given a large part of the floating rate loan portfolio of banks is still anchored on the Base Rate, the RBI will be exploring various options in the near future to make the Base Rate more responsive to changes in cost of funds of banks," RBI said.

The central bank has also constituted a committee to study the various aspects of the MCLR system from the perspective of improving the monetary transmission and said it would explore linking of the bank lending rates directly to market-determined benchmarks.

The Group will submit the report by September 24, 2017.

How to curb 'invisible money'

Jagdeep S. Chhokar

AUGUST 03, 2017

THE HINDU

Reforms suggested by the Election and Law Commissions must be given a chance

The statement by Union Finance Minister Arun Jaitley recently that the Election Commission has failed to curb 'invisible money' in polls is remarkable. It is unusual for a senior Minister to make adverse remarks against a constitutional body in public. However, there are factual problems with his statement.

The Election Commission (EC) works in accordance with Article 324 of the Constitution of India, the Representation of the People Act (RP Act), 1951 and the rules framed by the government thereunder, and various judgments of the Supreme Court and High Courts. The power to frame rules under the RP Act has not been given to the EC by successive governments, which includes the current one.

Action and reaction

Most of the reform proposals by the EC have not been acted upon. It sent 22 proposals in 2004. In December 2016, it sent 47 proposals including those for "Election expenses and election petitions", "Election campaign and advertisements", and "Reforms relating to political parties". The government's actions, if any, are not available in the public domain.

There are instances where the EC has recommended the same reform repeatedly only to have it rejected. There are also instances where the Supreme Court has directed reforms in its decisions, with the government and Parliament attempting to amend laws to prevent implementation of the judgments.

Now to the electoral bonds the Finance Minister was referring to. To what extent these bonds will make 'invisible money' visible was explained by him after he presented the Budget. In the media interaction, he said: "These bonds will be bearer in character to keep the donor anonymous." Since the reference to electoral bonds in the Budget speech was under the heading "Transparency in Electoral Funding", it led some commentators to ask whether 'transparency' and 'anonymity' are the same. Given his statement on the EC, it appears as if 'anonymity' is expected to increase 'visibility'.

The other significant proposals that the Budget made were (a) to remove the limit of 7.5% on profits that a company can donate to a political party, and (b) to remove the requirement that the company making a donation to a political party disclose the name of the party and the amount donated. Whether these two proposals will reduce 'invisibility' or increase it is best left to a readers' judgment.

The Minister also said, "I asked political parties, both orally in Parliament and in writing, to offer a better suggestion to me… not one has come forward to date because people are quite satisfied in the existing system."

It should be obvious that political parties will have no objection to the electoral bonds system as it allows them to raise money with 'anonymity'. But it is interesting that the Minister should ask this question to parties which stand to lose 'invisible money' if it is eliminated. So who else can or should the Minister ask? Logically, it is the Election Commission and the Law Commission of India which have both applied their minds to the issue repeatedly.

It must be noted that the outgoing Chief Election Commissioner had expressed misgivings about electoral bonds.

The Law Commission studied the issue in 1998-99 and presented its comprehensive assessment and proposals in its 170th report, titled 'Reform of the Electoral Laws'. This paragraph captures the essence of its recommendations: "On the parity of the above reasoning, it must be said that if democracy and accountability constitute the core of our constitutional system, the same concepts must also apply to and bind the political parties which are integral to parliamentary democracy. It is the political parties that form the government, man the Parliament and run the governance of the country. It is therefore, necessary to introduce internal democracy, financial transparency and accountability in the working of the political parties."

If that is considered outdated, the Law Commission issued another report in March 2015 (its 255th) wherein it devoted 64 pages to "Election finance reform". This also contains valuable recommendations to reform the election finance system, but then there has to be a willingness to do so. The willingness seems to be to ensure anonymity. There are also other indicators of the will of the government.

The RTI way

A logical and simple way of introducing "financial transparency and accountability in the working of the political parties", and recommended by the Law Commission, is to bring them under the Right to Information (RTI) Act, 2005. The Central Information Commission (CIC) had said in a full bench decision in June 2013 that six national political parties were indeed 'public authorities' under the RTI Act as they fulfilled all conditions specified in Section 2(h) of the RTI Act which defines 'public authority'.

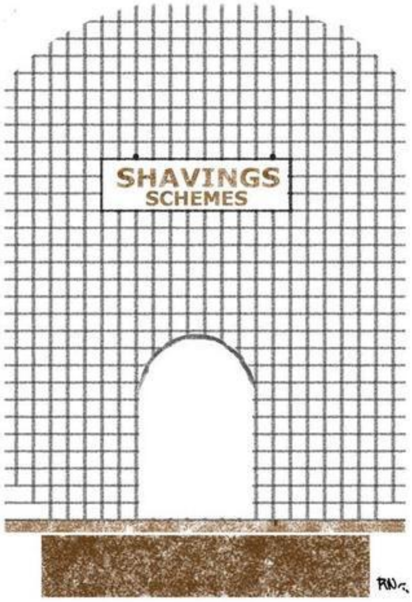
Despite the June 2013 decision, these parties, including the ruling party now, refused to accept RTI applications, blatantly defying the unanimous decision of a full bench of the highest statutory authority to implement a law passed unanimously by Parliament. They did not even deign to respond to notices by the CIC, of non-compliance. Another full bench of the CIC expressed its inability to get its own "legally correct" decision implemented. It also referred to it as "an unusual case of wilful non-compliance".

When a petition was filed in the Supreme Court to get the decision of the CIC implemented, the government said in a sworn affidavit submitted to the Supreme Court that political parties should not be under the purview of the RTI Act. The petition is still pending in the Supreme Court.

The stand of the government in the Supreme Court is further evidence of what the government is not willing to do.

End banks' monopoly over retail savings

AARATI KRISHNAN BUSINESSLINE



In the absence of viable options for risk-averse investors, Indian banks take depositors completely for granted

Why do Indian banks get such kid-gloves treatment from stakeholders? The Government, well aware of the role played by bankers in creating the mountain of NPAs, has been shrinking away from hard decisions such as privatising the worst-performing banks or denying capital to them. The RBI, despite grumbling periodically about banks not passing on rate cuts and 'lazy' banking, has been loath to penalise individual banks for such infractions.

Depositors, despite constantly being taken for granted on service quality, costs and interest rates, continue to rely overwhelmingly on banks to park their savings. India's largest bank has just trimmed its interest rate from 4 per cent to 3.5 per cent on its savings accounts, citing high 'real returns'. That's conveniently forgetting that depositors have gamely accepted negative real returns on their savings accounts for much of the last decade!

Lion's share

In fact, the real reason why the Government and the RBI give banks a long rope is that they are such large custodians of public money. RBI data on household savings tells us that bank deposits grabbed 42 per cent (☐6.2 lakh crore) of the ☐14.9 lakh crore of incremental financial assets added by Indian households in FY16. That was nearly twelve times the assets that went into small savings schemes, six times the money added to shares and mutual funds, and three times the assets salted away in pension and provident funds.

As of July 2017, Indian banks sat on a mammoth ☐106 lakh crore in demand and time deposits, over 60 per cent of which belongs to ordinary households. Clearly, with this kind of public money in its coffers, the fortunes of the banking system are closely intertwined with consumer and investor confidence. That's why both the Government and the RBI are so wary of doing anything that can cause even the faintest of tremors in the banking system.

But with banks now facing a problem of plenty and actually looking to disincentivise depositors, the time is just right to cut this Gordian Knot. The Government should seize this opportunity to open up alternative savings avenues to retail folk, so that they are no longer over-dependent on banks.

Reboot small savings

Small savings schemes run by India Post at one time offered a popular alternative to banks. But a steady reduction in tax benefits, sharp cuts in interest rates and creaking service infrastructure have decimated their popularity with retail savers in recent years. Therefore, despite the unparalleled distribution reach of the post office network, small savings manage less than a tenth of the assets cornered by banks.

With 1.4 lakh branches that reach deep into the rural hinterland, India Post can emerge as the preferred custodian of savings for low-income earners in India's smaller cities and towns. To induce these savers to consider it, the schemes will need some tweaks. Their features need to be greatly simplified. The current practice of subjecting small savings schemes to quarterly interest rate resets based on prevailing market yields is terrible. Instead, it would be best if the Centre moved back to fixed rate regime on these schemes, with a constant mark-up over long-term inflation rates. Resets in the small savings rates should be effected only when there are significant structural changes in inflation rates. The Centre must also waive income tax on the interest from the post office savings account. A monetary ceiling on individual investments in each scheme can ensure that affluent savers don't reap undue benefits.

The quality of customer experience that the small savings desks of India Post deliver also needs to be vastly improved. Disinterested staffers and ill-equipped agents need to be replaced. With India Post already on an ambitious project to overhaul and computerise its branches, this isn't such a tall order.

Promote money market funds

If the subsistence saver needs savings avenues that will preserve his capital and minimise market risk, the affluent saver needs exactly the opposite. Middle and high-income earners who use bank accounts as a parking ground for their monthly pay cheque may well be willing to take on market risks, if it means earning superior returns. Money market mutual funds, which pool retail money and redeploy it in money market instruments, provide the ideal solution to this.

Presently, the Indian mutual fund industry offers a long line-up of liquid and short-term bond funds, but very few designated money market funds. Liquid funds take on corporate bond exposures (which carry credit risk) and are mainly designed for corporate treasuries and institutional investors. They are also subject to high rates of tax on their dividend distribution (28.3 per cent at source) and capital gains (at the slab rate if withdrawn within three years).

The mutual fund industry can be prodded to launch wholly retail-investor focused money market mutual funds which invest mainly in sovereign bonds. To ensure that they offer a credible alternative to banks, these funds need to enjoy the same tax breaks as savings bank accounts.

Retail government bonds

A big reason why Indian households pour so much money into banks is that safe savings avenues are in short supply. The safest fixed income investment in any economy is the sovereign bond. India certainly has no dearth of supply of sovereign bonds, given that the Central government borrows over □3-4 lakh crore from the market by auctioning government securities every year. These g-secs come in tenures from 91 days to 30 years and are sold by the RBI. If made available to the retail investor, they could expand the menu of safe options available.

While the RBI has been talking for years about encouraging retail participation in the g-sec market, the effort has been a non-starter so far. This is because access to the g-sec market is restricted only to RBI-designated primary dealers, which are usually banks or their subsidiaries. As retail investors don't deal with primary dealers for any of their other investments (stock market investments are routed through depository participants and stock brokers), one has to specifically open an account with a primary dealer to acquire or transact in g-secs. In fact, most retail investors are not even aware that they can directly own g-secs.

This lack of retail access creates ample opportunity for lazy banking. Banks get to pocket a hefty spread simply by sourcing CASA (current account savings account) deposits at 4 per cent and lending it to the Government at 6-7 per cent. When banks are in a risk-averse mood, as they have been this past year, nearly a fourth of their deposit base is deployed in this fashion. If the g-sec market could be disintermediated and g-secs be made available to retail investors through mainstream investing platforms, they could be quite a hit with retail investors.

It is time Indian banks worked harder for the saver's money. Is the Government ready to give them a taste of competition?

AIBEA THIS DAY – 4 AUGUST	
1973	**17th Conference of AIBEA at Chennai.**
1983	**All India Trade Union Rights Day by National Campaign Committee.**
1997	**Parliament Morcha against privatisation of Banks and Insurance, on our demands for Pension in Private Banks, RRBs and Co-operatives and on withdrawal of strike clause and forfeiture thereof in Pension Scheme.**
2003	**Formation of All India Co-ordination Committee of Unions in Financial Sector.**
2009	**BP talks; IBA/UFBU**

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