AIBEA's Banking News

1 SEPTEMBER 2017

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

99% of demonetised notes returned, says RBI report

Manojit Saha MUMBAI,AUGUST 31, 2017 THE HINDU

The Reserve Bank of India's annual report has finally revealed that as much as Rs. 15.28 lakh crore of the high-value currency that was demonetised in November returned to the central bank.

"Subject to future corrections, based on the verification process when completed, the estimated value of SBNs [specified bank notes] received as on June 30, 2017, is Rs.15.28 trillion," the RBI said in a report released on Wednesday.

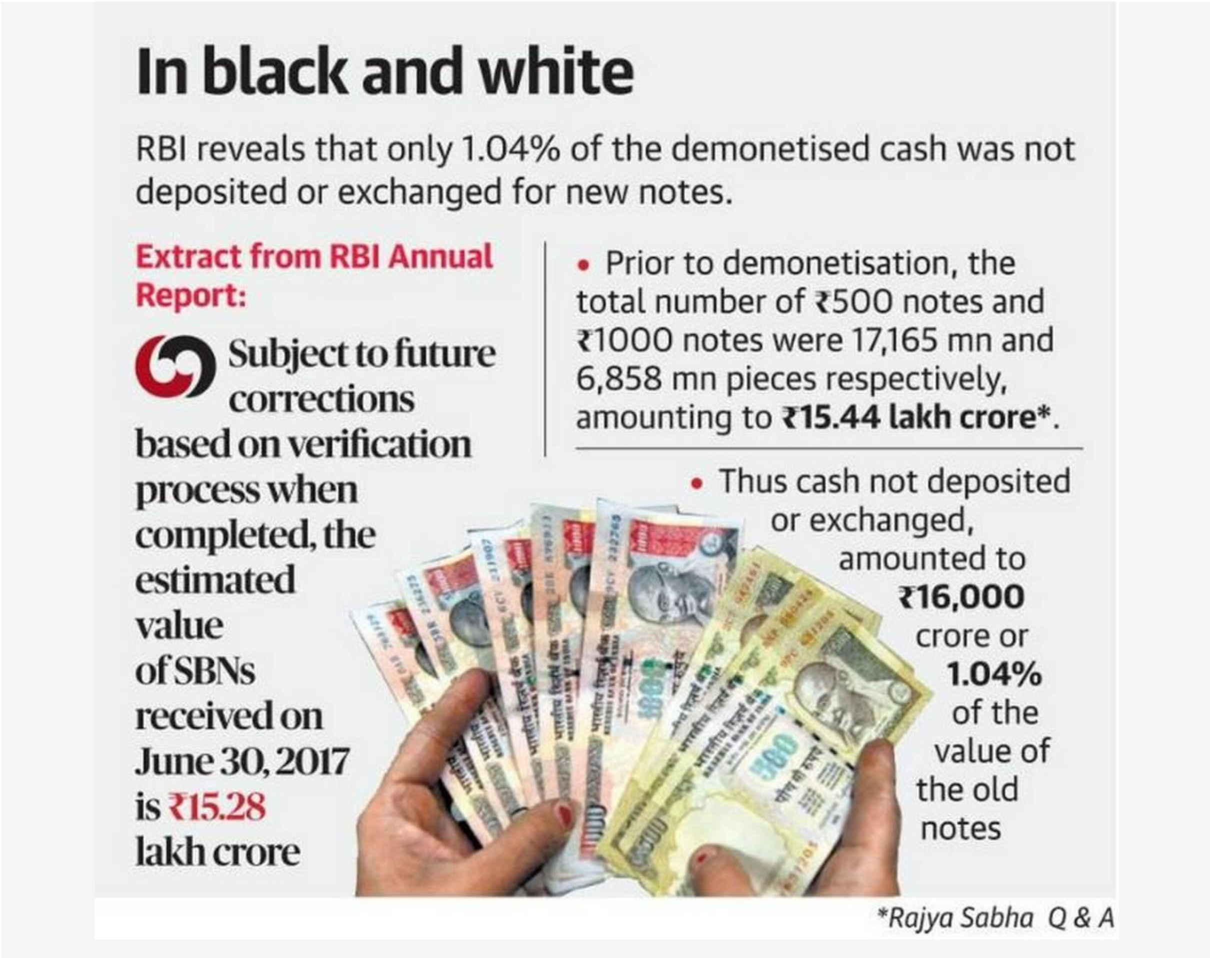
Intense scrutiny

The central bank was under intense scrutiny since January — after the window for depositing the withdrawn Rs.500 and Rs.1,000 banknotes had closed — for details on the extent of currency that was returned to the RBI in the wake of the government's sudden decision to withdraw high-value banknotes as a means to combating counterfeiting, black money and the financing of terrorist activities.

The latest RBI data showed that 98.96% of the withdrawn currency — at the time of demonetisation the value of old Rs.500 and Rs.1,000 notes in circulation was Rs.15.44 lakh crore — was deposited with the banks.

Separately, the data showed that the share of the newly introduced Rs.2,000 banknotes in the total value of currency in circulation was 50.2% at end-March 2017.

Finance Minister Arun Jaitley said on Wednesday that the confiscation of money was never the objective of the demonetisation exercise. "That people have been compelled to deposit even black money into banks is itself a good evidence of its [success]."



Mr. Jaitley said that the high growth in income tax returns and the robust GST inflows indicated that more and more people now preferred to undertake 'white money' transactions.

"With RBI disclosing the numbers of returned notes today [Wednesday] and the measure having been successfully implemented, the debate should be over," said Economic Affairs Secretary Subhash Garg. Mr. Garg called for a conclusion of note-ban linked arguments as the "short-term negative impacts on economic activity had played out fully and long-term positives will continue to strengthen fundamentals."

The final deposit figures could still rise since on June 20, 2017, the government allowed District Central Cooperative Banks to deposit the withdrawn notes that had been accepted by them from customers between November 10-14.

The central bank also said it was in discussion with the government whether to accept the demonetised notes held by citizens and financial institutions in Nepal. Data in the annual report showed that only 89 million pieces of Rs.1,000 were not deposited.

The politics of demonetisation

As of March 2016, there were 6,326 million pieces of Rs. 1,000 banknotes in circulation. In 2016-2017, another 925 million pieces of Rs 1,000 notes were supplied into the system by the currency printing presses.

Shame on RBI for recommending demonetisation: Chidambaram

"Was demonetisation a scheme designed to convert black money into white," the former Union Finance Minister asks.

Former Union Finance Minister P. Chidambaram has slammed the Reserve Bank of India for recommending demonetisation, which according to data released by the central bank saw only 1% of the banned currency not return.

"Rs 16000 cr out of demonetised notes of Rs 1544,000 cr did not come back to RBI. That is 1%. Shame on RBI which 'recommended' demonetisation," Mr. Chidambaram said in a series of tweets on August 30, after the RBI released its annual report.

"RBI 'gained' Rs 16000 crore, but 'lost' Rs 21000 crore in printing new notes! The economists deserve Nobel Prize," he said.

He also wondered whether demonetisation was a scheme to convert black money into white. "99% notes legally exchanged! Was demonetisation a scheme designed to convert black money into white?" he said in another tweet.

Congress spokesperson Randeep Singh Surjewala demanded an apology from Prime Minister Narendra Modi. "Demonetisation scam,not only dented institutional sanctity of RBI,but also credibility of India abroad," he said.

The government has spent Rs. 21000 crore to recover Rs 16000 crore. The utterly failed demonetisation is nothing but a disaster in which 104 innocent people were killed while the corrupt made windfall gains," Mr. Surjewala said. CPI (M) General Secretary Sitaram Yechury questioned the need for such an exercise when it failed all its stated objectives: combating corruption, black money, counterfeit currency and terrorism. "99.9% of the notes back in the banking system. 100s died in queues. The poor suffered the most. All this for what?" he questioned.

Using "anti-national" tag which is often used by the ruling dispensation for anyone questioning the government, Mr. Yechury said, "Lives & livelihoods lost, the Economy got a shock, workers lost their jobs. India can never forgive Modi govt for this anti-national act."

West Bengal Chief Minister Mamata Banerjee, who was the first one to react on within minutes of Prime Minister's address to the nation on November 8 last year, said that the RBI's revelation pointed at a "big scam." "Demonetisation was supposedly done to uncover several lakhs of crores of black money. And now what we have got is a big, big zero!"she wrote on a Facebook post. The Trinamool Congress has appealed to the Supreme Court to intervene in the matter and to order an thorough investigation.

RBI says got back almost all of banned currency notes

REUTERS MUMBAI, AUG 30: BUSINESSLINE

Indians returned almost all of the estimated Rs. 15.4 lakh crore ($242 billion) in high-currency bills removed from circulation in a shock move late last year, the Reserve Bank of India (RBI) said in its annual report out on Wednesday.

A total of Rs. 15.28 lakh crore was returned to the central bank through lenders, a number that could renew scrutiny about the effectiveness of the measure announced by Prime Minister Narendra Modi in November.

By rendering 500 and 1,000 rupees illegal in one stroke and imposing restrictions on how the money could be returned to lenders, Modi had been intending to make it difficult for hoarders of undeclared wealth, or black money, to exchange their undeclared cash for legal tender.

But it seems that nearly all of it was returned by individuals, implying that there was a very small amount of unaccounted money held in cash by those seeking to conceal it.

But economists have said the measure has had positive impact as well, including bringing in cash into the banking system, and hence lowering the cost of loans, even as significant parts of the economy were disrupted.

"While this shows that demonetisation exercise has not yielded a large one time gain, it has led to financialisation of dormant savings and helped bring down lending rates," said A. Prasanna, economist at ICICI Securities Primary Dealership Ltd in Mumbai.

Modi's so-called "demonetisation" bill contributed to the growth easing to its slowest pace at 6.1 percent in January-March, its slowest pace since late 2014 as large parts of India's economy was dependent on cash transactions.

Although opposition parties had tried to make a big issue out of disruption caused by demonetisation, it has failed to dent the appeal of Modi's Bharatiya Janata Party, which has since scored key electoral wins, including a victory in the state of Uttar Pradesh earlier this year.

Forced PSU bank mergers won't work

SUBIR ROY

Downside SBI's net profits only went down after the grand merger.

Such mergers only delay onset of the crisis. A culture of professionalism can help banks come out of the current mess

An architecture has emerged for the Government to tackle the massive bad loan problem of state-owned banks. There is now a Banks Board Bureau to pick new top managers for banks and act as a buffer between banks and the Government to ensure proper governance.

There is also an insolvency and bankruptcy code which is a single legal window, so to speak, to speed up the process for resolution of bad debts. Though these measure will take time to show results, they can be termed the good part of the architecture.

The indifferent part is the Government empowering itself to ask the RBI to direct banks to initiate proceedings under the code and also form committees to give banks directions in this regard.

Since bank managements will move slowly on their own to resolve bad debts for fear of future scrutiny, this move makes sense but it also lays the ground for the government to pick and choose between bad debts and the promoters behind them. So this can be termed the indifferent part of the architecture.

Merging concerns

But where the Government is going conspicuously slow is in recapitalising public sector banks whose net worth is severely eroded. Witness the minuscule ☐10,000 crore provided for this in the latest budget when the NPA load goes into lakhs of crores.

Instead, it has decided to move forward with the merger of banks, reducing their total number by almost half to around a dozen. For this the government has approved a mechanism which will both oversee and speed up things. This is the bad part of the architecture.

Mergers are being touted as the way to have only big strong banks which will then have enough depth in their balance sheets to take care of future provisioning needs and also keep lending big to achieve rapid economic growth. But by simply merging a weak bank with a strong bank you will merely create a bigger bank which will be weaker than what it was in its earlier avatar.

We need go no further than to look at the immediate fallout of the merger of five associate banks of the State Bank of India with itself. The associate banks made a loss of Rs 5,792 crore for the March quarter of 2016-17 and Rs 10,243 crore for the entire year.

This resulted in the consolidated net profit of SBI going down to a mere Rs 241 crore when the stand alone net profit was ☐10,484 crore. The consolidated net profit will be a fraction of the outgo on account of dividend. Hence dividend, which props up the government's fisc, will have to be paid out of reserves.

The shock delivered by these number caused the SBI share to tank by 4.6 per cent. Finance minister Arun Jaitley had earlier expressed confidence that the merger would make the bank a global player!

Systemic risks

In fact, the experience since the financial crisis of 2008 suggests that governments should have on their hands as small a number of entities as possible which are too big to fail as they are systemically important.

This puts the responsibility over them ultimately in the hands of the regulator whose job it is to ensure systemic stability.

On the other hand, it is small banks with strong local roots which lend to small and medium enterprises with good knowledge of the world they operate in that have a lot going for themselves.

Through the small units and startups they fund, smaller banks are the creators of jobs and wealth. In fact, in today's world of banking, it is the small that is beautiful because they have their feet firmly planted in the ground and are thereby robust on their own terms.

Merging banks so as not to have to recapitalise them in a big way will merely postpone the need to adopt a real solution and probably make things worse when it will not be possible to hide any more behind stopgap measures.

The contrast between mergers based on the basis of felt commercial needs as opposed to simply doing so in order to show that one is doing something is illustrated by the two stages which the State Bank of India group has gone through. Earlier an associate bank was merged with the parent when it was considered to be weak.

This led to the merger of State Bank of Bikaner and Jaipur and State Bank of Indore with the parent. But the subsequent merger of the five remaining associate banks is a blanket action which is justified only on the ground that it is better to have fewer state owned banks than more. It is no wonder that post the mass merger, the merged entity is seen to be weaker than its earlier stand alone self.

Professional management

If merger, *per se*, is not a solution then what is? Obviously, given the present dead weight of non-performing large corporate loans, there is a future for public sector banks only if they are run by professional managers who can take a view on a project and other risks at stake before making a commitment. On the other hand, what had happened was politically directed lending for projects whose costs had sometimes been gold plated (overstated) and with inadequate assessment and coverage of the risks at stake.

Crony capitalism and public sector bank bad debts are two sides of the same coin. Once the top managers chosen by the Banks Board Bureau settle down and start changing the managerial culture, professionalism can emerge in an ambience of improved governance.

But that can happen without mergers! The right policy now would have been to simply continue chasing bad debts armed with the powers conferred by the bankruptcy and insolvency code and not engage in forced mergers. These are as dubious as forced marriages.

Bad loans of 41 banks may surge to □9 lakh cr by March, says ICRA

Credit rating agency pegs fresh slippages this fiscal at Rs 3 lakh crore

MUMBAI, AUGUST 31: BUSINESSLINE

Gross non-performing assets (GNPAs) of 41 listed Indian banks are likely to collectively increase to □8.8-9.0 lakh crore by March-end 2018 from Rs 7.65 lakh crore as at March-end 2017, according to credit rating agency ICRA.

The overall GNPAs of the aforementioned banks had increased to Rs 8.28 lakh crore as at June-end 2017.

At Rs 1.15 lakh crore, fresh non-performing assets during the June 2017 quarter were the highest in the last five quarters, with slippages coming in across corporate, medium and small enterprise (MSME) and agricultural segments, said the rating agency.

It maintained its estimate for fresh slippages at Rs 3 lakh crore during FY18. In a report, ICRA observed that with only 11 per cent of fresh slippages during the quarter being from standard restructured loans, corporate slippages outside the vulnerable book continued.

Farm loan waivers by various State governments and expiry of dispensation allowed on classification of overdue small-ticket loans post demonetisation as NPAs, also contributed to the higher slippages in the agriculture and MSME sectors.

Karthik Srinivasan, Group Head – Financial Sector Ratings, ICRA, reasoned that the continued asset quality pressure in the large corporate segment, and higher slippages from the agricultural and MSME segments on account of the transient impact of the Goods and Services Tax (GST) resulted in an increase in NPAs.

"With the expected moderation of the GST impact and the likely release of payments by State governments against farm loan waivers, recoveries/upgrades will improve in these segments by end of FY18," he said.

Additionally, any favourable outcome on the large corporate accounts referred under the Insolvency and Bankruptcy Code (IBC) would also support recoveries/upgrades during the year.

PSBs: Another year of losses

With higher credit provisions required on the ageing of NPAs and relatively low treasury gains, ICRA hinted at the possibility of another year of losses or low single-digit return on equity for public sector banks (PSBs).

"While gross NPAs of banks are likely to increase, with another year of elevated credit provisions at about 1.9-2.3 per cent of advances, we expect the net NPAs for the sector to reduce. We estimate net NPAs of 4.4-4.6 per cent by March 31, 2018, compared with 5.5 per cent as on March 31, 2017," said Srinivasan.

On the other hand, private sector banks are expected to report return on equity of 10-12 per cent for FY18.

Underscoring that with losses during the June 2017 quarter, core equity levels of PSBs remain weak, Srinivasan said: "With weak internal capital generation, PSBs will require to raise a total equity capital of ☐90,000 crore to Rs 1 lakh crore during FY18 and FY19 against the budgeted capital of Rs 20,000 crore by the government for this period. "While the government has infused a large quantum of unplanned equity into one PSB during August 2017, the bank-wise capital infusion plan for FY18 is yet to be announced."

The budgeted capital infusion is much lower than the total requirement of PSBs, and further support from the government needs to be watched, he said.

Lending rates

With savings deposit rate cuts of 50 basis points (bps) by many banks and expectation of 15-25 bps decline in cost of funds, ICRA expects a further cut of 10-15 bps in lending rate in the coming quarters.

It, however, does not expect a further cut in deposit rates, unless the government reduces rates of small saving schemes again.

Pay dues or allow others to take control of biz: FM to debtors

Union Finance Minister Arun Jaitley PTI

'Through the bankruptcy law, the debtors are being taken to task'

NEW DELHI, AUG 31: PTI / BUSINESSLINE

Finance Minister Arun Jaitley today put private sector debtors on notice saying they will have to pay their dues to banks or allow somebody else to step in and take control of the business.

Using the new bankruptcy law, the central bank has prodded banks to initiate insolvency proceedings against 12 large corporate defaulter to resolve Rs. 2 lakh crore or almost a fourth of the country's bad debt.

More defaulters are being notified for action.

Jaitley said the government was open to providing more capital to banks but cleaning up stressed loans was bigger priority.

"Through the bankruptcy law, I think this is the first time that debtors in India are being taken to task," he said at the Economist Summit here.

Stating that results of the proceedings against major debtors would dictate how the banking situation improves, he said the process process will take time. "You can't have a surgical solution to this," he said.

Raising resources

"A very easy solution to suggest is tax payers must pay because the private sector has defaulted," the finance minister said, adding bank recapitalisation—where the government puts in more capital in public sector banks to shore up their books—effectively amounted to that. "Therefore, I think let's try and make the private sector pay for their debts or allow somebody else to step in," he said.

He said that the governmenthas already put in Rs. 70,000 crore in banks as capital and is "open" to putting in more money. "There is also a possibility of some banks raising resources from markets," he said.

"We are also at an active stage going for consolidation. We don't need so many public sector banks. We need fewer but stronger banks," the minister said.

The Union Cabinet had last week decided to speed up mergers among 21 public sector banks (PSBs) to scale efficiencies and improve the quality of corporate governance. However, the absent fresh capital infusions from the government, had cast doubts if such mergers would improve PSBs' weak capitalisation.

Jaitley said that putting in more money at a later stage is a possibility.

The government owns majority stakes in 21 banks and merger of some of them is being considered for broader economic revival. These lenders hold around 74 per cent of all deposits.

On interest rates, Jaitley said that every finance minister wants interest rates to go down. "That's been constantly the desire of everyone. But then at the end of the day, the regime and the system we have is that the finance ministry or North Block does not have the last word in this. Therefore we will live with the regime that we have," he said.

The Reserve Bank sets benchmark borrowing and repurchase rates, which are used as a reference by banks to decide on interest rates.

Consolidation among public sector banks exempted from scrutiny

NEW DELHI: ECONOMIC TIEMS 31 8 2017

The government has exempted consolidation among public sector banks from the scrutiny of competition authority. The exemption will cover all cases of reconstitution, transfer of the whole or any part of nationalised banks and will be available for a period of 10 years.

In a gazette notification, the provisions of Sections 5 and 6 of the Competition Act, 2002 will not apply in these cases.

Sections 5 and 6 of the Competition Act regulate 'combinations', and requires prior notification and approval of the competition watchdog. The union cabinet had last week given in-principle approval for public sector banks to amalgamate through an alternative mechanism. A panel of ministers will decide on merger proposals.

The public sector banking universe

A look at the geographical spread of public sector banks in India, following the government's decision on bank consolidation

The government have its go-ahead for PSU bank mergers on Wednesday

Aug 24 2017
lIVEMINT

After the mega merger of State Bank of India (SBI) with five of its associate banks, the government has taken another step to consolidate public sector banks. While it has left the decision of mergers and acquisitions to individual bank boards, it also said the final decision will be based on commercial considerations. Capital constraints, asset quality and the creation of large banks are likely to be the yardsticks.

The chart highlights the geographical presence of state-owned banks. The western and southern regions have the highest number of lenders; banks in the west are bigger in size. Note also that banks such as Punjab National Bank, Bank of Baroda, Union Bank of India, and Canara Bank have pan-India presence, along with a strong regional visibility. Post merger, SBI’s presence across India has further strengthened.

The public sector banking universe

By a staff writer
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(As on 30 June)

Bank	Total advances (in Rs crore)	No. of branches	Gross non-performing assets (in %)	No. of employees (Latest available)
NORTH				
Punjab National Bank	3,99,750	6,946	13.66	73,919
Oriental Bank of Commerce	1,64,577	2,376	14.83	21,552
Punjab and Sind Bank	59,076	NA	11.33	9,400
WEST				
Bank of Baroda	3,77,607	5,434	11.4	52,420
Union Bank of India	2,95,175	4,286	12.63	36,877
Bank of India	3,91,062	5,125	13.05	47,750
IDBI Bank	1,90,841*	1,922*	24.11	18,187
Bank of Maharashtra	97,096	1,897	18.59	13,234
Dena Bank	74,807	1,874	17.37	13,985
Central Bank of India	1,72,198	4,716	18.23	37,685
SOUTH				
Andhra Bank	1,45,801	2,908	13.33	19,380
Indian Overseas Bank	1,50,238	3,381*	23.6	29,806
Vijaya Bank	93,355	2,030	7.3	15,679
Indian Bank	1,33,892	2,687	7.21	20,685
Corporation Bank	1,33,332	2,517	15.49	19,667
Syndicate Bank	2,02,735	3,947	9.96	32,097
Canara Bank	3,42,816	6,089	10.56	55,717
EAST				
UCO Bank	1,26,096	NA	19.87	24,620
United Bank of India	66,139*	NA	17.17	14,962
Allahabad Bank	1,51,869	3248	13.85	23,944

*As on March 2017

Source: Capitaline

BANKS BACHAO – DESH BACHAO

SAVE BANKS – SAVE INDIA

MORCHA TO PARLIAMENT

15TH SEPTEMBER, 2017

CLARION CALL FROM UNITED FORUM OF BANK UNIONS

- STOP UNWARRANTED BANKING REFORMS
- STOP PRIVATISATION OF PUBLIC SECTOR BANKS
- STOP CONSOLIDATION – START EXPANSION
- STOP WRITE OFFs – START RECOVERY OF BAD LOANS
- TAKE CRIMINAL ACTION ON WILFUL DEFAULTERS

BE A PART OF THE HISTORIC MORCHA TO PARLIAMENT

AIBEA - AIBOA

RBI not for NBFCs taking deposits'

SPECIAL CORRESPONDENT NEW DELHI,AUGUST 23, 2017 THE HINDU

'Licenses given not to be revoked'

The Reserve Bank of India (RBI) is not in favour of allowing non-banking finance companies (NBFCs) to accept deposits, Deputy Governor N.S. Vishwanathan said, adding that while the central bank has given a few NBFCs licenses to accept deposits, it would not do so in the future.

'No cancellation'

Mr.Vishwanathan, however, said that the licenses already given will not be revoked.

"Taking deposits will bring with it the treasury function, which would make business tougher for NBFCs," Mr. Vishwanathan said while speaking at an Assocham event on NBFCs. "The RBI is not in favour of allowing NBFCs to take public deposits," the Deputy Governor added.

"The RBI will not issue any more licenses to NBFCs to accept public deposits," Mr.Vishwanathan added on the sidelines of the event. "But we will not revoke the licenses already given."

NBFCs were one of the bright spots of the Indian economy, with the rate of growth of advances growing by 14-15%, which is higher than banks, Mr. Vishwanathan noted.

The RBI regulates NBFCs for three reasons, Mr.Vishwanathan added, saying that these include depositor protection, the fact that many NBFCs rely on banks to finance their liabilities, and also to regulate the interface between customers and NBFCs.

"There is scope for harmonisation of NBFC regulations, and we are working on it," Mr. Vishwanathan said

Consolidated FDI policy charter released

SPECIAL CORRESPONDENT
NEW DELHI,AUGUST 28, 2017 THE HINDU

In a first, includes norms for start-ups

The government has brought out the latest edition of its consolidated FDI policy document, which is a compilation of the changes made in the past one year in a single document.

It is an initiative aimed at ensuring greater ease of doing business in India and an investor-friendly climate to foreign investors so that the country attracts more FDI.

The Department of Industrial Policy and Promotion said the new "circular will take effect" from Monday. For the first time, the document has included start-ups. As per the norms, start-ups can raise up to 100% of funds from Foreign Venture Capital Investors.

The document said start-ups can issue equity or equity-linked instruments or debt instruments to FVCIs against receipt of foreign remittance.

Besides, it said a person resident outside India (other than citizens or entities of Pakistan and Bangladesh) will be permitted to purchase convertible notes issued by an Indian start-up company for an amount of Rs.25 lakh or more in a single tranche. NRIs can also acquire convertible notes on non-repatriation basis. "Start-ups can issue convertible notes to person resident outside India (subject to certain conditions)," the document said. A start-up company engaged in a sector where foreign investment requires Government approval may issue convertible notes to a non-resident only with the approval of the Government," it said. Start-ups issuing convertible notes would be required to furnish reports as prescribed by the RBI, it added.

The past one year has seen FDI policy being liberalised in sectors including defence, civil aviation, construction and development, news broadcasting and private security agencies. These reforms have been incorporated in the document.

AIBEA THIS DAY – 1st SEPTEMBR	
1928	D P Chadha, former President, AIBEA (date of birth)
1932	L N Bhyal, former Vice President (Date of birth)
1938	Bechan Lal, former Asst. Secretary, AIBEA (date of birth)
1987	Supreme Court orders on RRB Industrial Tribunal constitution.
2009	AIBEA General Secretary CH Venkatachalam delivers public lecture in Colombo on Global recession – a political perspective.
2009	Com. Lalitha Joshi Joint Secretary participates in workshop on development of female employees' leadership in trade Unions at Colombo.

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