AIBEA's Banking News

22 23 OCTOBER, 2017

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Banking sector stares at additional Rs 40,000 cr NPAs

NEW DELHI: ECONOMIC TIMES

The banking sector fears accretion of more than Rs 40,000 crore of bad loans to its books following recent classification of eight consortium accounts of Axis Bank as nonperforming assets by the RBI.

The Reserve Bank has directed certain reclassifications in the private sector lender's asset classification and provisioning as on March 2017, subsequent to the annual Risk Based Supervision (RBS) exercise conducted for 2016-17.

As a result, Axis Bank had to reclassify 9 standard accounts into NPAs. Of these, 8 accounts are part of consortium lending, according to the latest quarterly results announced by the bank.

As on June 2017, Axis Bank claimed, these 9 accounts were classified as standard assets across most consortium banks, with only around 6 per cent of their outstanding classified as NPA.

According to estimates, total outstanding loan of these accounts at the end of June 2017 were about Rs 42,000 crore.

This decision has triggered fear among other consortium members about status of these loan exposure related to these accounts.

"It is going to have an impact on all the consortium lenders. Banks have to reconcile these accounts as NPA sooner or later. Reclassification by others may happen over two quarters," Suresh Ganapathy of Macquarie Capital Securities said.

If they reclassify these assets as NPA so banks have to make provision accordingly that could impact their bottomline, he added.

At the same time, banks would become cautious as far as fresh lending to these accounts are concerned because one of the consortium lenders has identified these accounts as NPA, a senior banker said on the condition of anonymity.

Some banks may take pro-active measure of classifying exposure to these accounts as NPA this quarter itself rather than waiting for the second half, the banker added.

Banks are already saddled with NPAs of over Rs 8 lakh crore and there seems to be no respite from the mounting bad loans as initial second quarterly numbers posted by some banks are not encouraging.

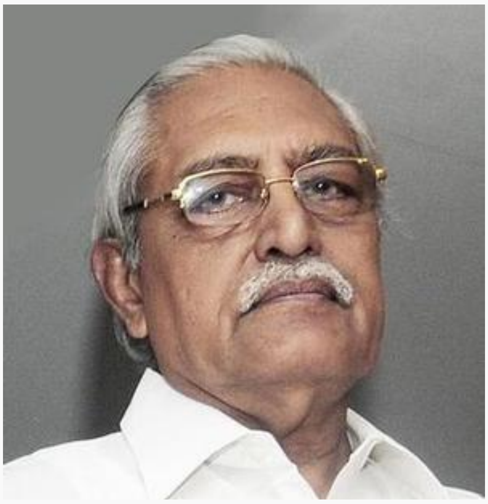
Major contributors to the NPA mess have been power, steel, road infrastructure and textile sectors. Sectoral distribution of the 9 accounts, as declared by Axis Bank include one account in the steel sector with its exposure of Rs 1,128 crore.

Besides, the power sector has 3 accounts amounting to Rs 1,685 crore as part of consortium lending while 4 accounts comprise a total of Rs 911 crore to various sectors.

As per the RBI inspection, there was divergence of Rs 5,632.80 crore in gross NPAs of Axis Bank at the end of March 2017. Gross NPA rose to Rs 26,913.28 crore as per the assessment of RBI from Rs 21,280.48 crore reported by the bank at the end of March 2017.

Move to entrust bank staff with Aadhaar enrolment work triggers protest

October 21, 2017 | Vinson Kurian, **BUSINESSLINE**



The proposal to designate certain bank branches as special cells for Aadhaar enrolment for the general public has invited the wrath of employee unions.

The additional work would only add to the burden of an already stressed-out staff, CH Venkatachalam, general secretary, **All India Bank Employees Association**, has said.

In a letter to the Chief Executive, Indian Banks Association, he referred to the instructions issued by some banks to designate certain branches for Aadhaar enrolment.

"At present this work is being done by some private agencies and bank premises are being used by them. Latest instructions are to disengage these private agencies and entrust the Aadhaar enrolment/updation work entirely to the bank staff," he said.

This is unacceptable since the bank staff are overburdened due to inadequate recruitment and increased volume of work of implementing various government schemes, among other things.

Despite protests, and in violation of the provisions of the bipartite settlement, banks have been outsourcing various regular jobs and services of bank employees, Venkatachalam said.

But here, not just is Aadhaar enrolment sought to be 'insourced' but similar non-banking jobs are being thrust on the bank employees, he added.

"We express strong protest against these instructions and request you to take up the matter with the concerned authorities to reverse the instructions."

Aadhaar centres: Banks question UIDAI's authority to issue directions

Only RBI has the power to issue directives to banks, says Indian Banks' Association

Gopika Gopakumar, LIVE MINT 21 10 2017 Mumbai:

The Indian Banks' Association (IBA) has questioned the jurisdiction of the Unique Identification Authority of India (UIDAI) in issuing directions to banks under the Aadhaar Act, according to two people aware of the matter.

IBA has written to the ministry of electronics and information technology, the Reserve Bank of India (RBI) and the finance ministry's department of financial services (DFS), arguing that only the central bank is empowered to issue directives to banks under the Banking Regulation Act, the two people said on condition of anonymity.

On 14 July, UIDAI first asked banks to open Aadhaar enrolment and updating facilities in at least one-tenth of their branches by the end of August. Later, it extended the deadline by a month and said it will impose a Rs20,000 fine per uncovered branch after 30 September, the Press Trust of India reported on 5 September, citing UIDAI chief executive Ajay Bhushan Pandey.

Now, in another directive on 7 October, UIDAI has made it mandatory for banks to act as both the Aadhaar registrar and enrolment agency. Banks will no longer be able to engage with private agencies for Aadhaar enrolment of their customers, it said.

"Banks shall complete the task of setting up Aadhaar enrolment and update center in 15,200 bank branches by 31 October. The centres shall be operated by banks directly inside bank branches without involvement of any private Aadhaar enrolment agencies," said the circular, a copy of which has been reviewed by Mint.

The latest revision mandating that Aadhaar enrolment be done by banks directly comes after they had started the process of on-boarding private agencies for the opening and updating of Aadhaar accounts.

"State Bank of India (SBI) had already appointed 400 agencies for Aadhaar enrolment. The bank will now have to rework the strategy and allot its existing staff to do the process.," said Neeraj Vyas, deputy managing director at India's largest lender. "We are looking to set up 3,000 centres across rural and semi-urban areas."

Spokespersons for UIDAI and IBA declined to comment. Emails sent to RBI and the department of financial services went unanswered.

The IBA letter also flagged issues involved in banks creating an Aadhaar database and using it for know-your-customer (KYC) purposes, according to one of the two people cited earlier.

“Aadhar enrolment is not the primary role of banks. We are awaiting clarity from both RBI and government whether we should take directives from an external authority to do Aadhaar enrolment as part of banking activity,” said this person.

UIDAI is authorized to ask banks to act as an enrolment agency after the government amended the Aadhar regulations, a government official said on condition of anonymity. The amendment gave UIDAI powers to ask any central or state agency or bank that provides a service requiring an individual to show an Aadhar number to also “ensure enrolment of such individual who is yet to be enrolled (for Aadhaar) or update their Aadhaar details, by setting up enrolment centres at their premises”.

Some experts challenge this view. According to S.D. Kelkar, former legal head of SBI, the amendment is framed under Section 54 (n) of the Aadhaar Act. This particular section deals with the general rule-making powers of UIDAI, which included laying down terms and conditions for the appointment of registrars, enrolling agencies and other service providers. It, however, doesn’t empower the authority to make it mandatory for banks to enrol Aadhaar customers, Kelkar explained .

The amendment “looks ultra vires (beyond one’s legal power or authority) and can be challenged on grounds that such a regulation cannot be framed by UIDAI”, said Kelkar.

On 14 October, a fresh petition was filed in Supreme Court challenging the government’s decision to link bank accounts and mobile phones to the 12-digit unique identity number issued by UIDAI.

In June, the government had amended the Prevention of Money Laundering (Maintenance of Records) Rules, 2005, requiring Aadhaar to be linked to every bank account by 31 December, failing which the accounts will become inoperative.

Linking Aadhaar number to bank accounts mandatory: RBI

MUMBAI, OCT 21: BUSINESSLINE/PTI

Reserve Bank of India today said biometric identity number Aadhaar linkage with bank accounts is mandatory.

The RBI clarification followed media reports quoting a reply to a Right to Information (RTI) application that suggested the apex bank has not issued any order for mandatory Aadhaar linkage with bank accounts.

"The Reserve Bank clarifies that, in applicable cases, linkage of Aadhaar number to bank account is mandatory under the Prevention of Money-laundering (Maintenance of Records) Second Amendment Rules, 2017 published in the Official Gazette on June 1, 2017," the central bank said in a statement.

These rules have statutory force and, as such, banks have to implement them without awaiting further instructions, it said.

The government in June had made Aadhaar mandatory for opening bank accounts as well as for any financial transaction of Rs. 50,000 and above.

Existing bank account holders have been asked to furnish the Aadhaar number issued by the Unique Identification Authority of India (UIDAI) by December 31, 2017, failing which the account will cease to be operational, the government notification had said.

There were reports in media quoting an RTI query in which RBI had said it "has not issued any instruction so far regarding mandatory linking of Aadhaar number with bank accounts".

The government in Budget 2017 had already mandated seeding of Aadhaar number with Permanent Account Number to avoid individuals using multiple PANs to evade taxes.

Cut in deposit rates drives investors to MFs

K RAM KUMAR, BUSINESSLINE 23 10 2017

Flocking to riskier assets (in ₹ cr)

Period	MFs' AUM*	Bank deposits**
September 2017	21,00,294	1,12,58,700
September 2016	16,16,299	1,03,62,385
September 2015	13,21,309	–
October 2, 2015	–	93,55,869

*AMFI data; average AUM **RBI data; scheduled banks

Mutual funds' assets shoot up 30% in Q2

Every time a bank cut its term deposit rate in the last year or so, it pushed desperate customers to increasingly look elsewhere for better-yielding assets, including mutual funds and the stock market.

This is highlighted by the fact that the mutual fund industry's average assets under management (AAUM) shot up 30 per cent year-on-year in September 2017 (against 22 per cent y-o-y in September 2016).

The banking industry's deposit accretion, by contrast, was slower at 9 per cent in Q2 (11 per cent in Q2 September 2016). The AAUM of the mutual fund industry and deposits of all scheduled banks stood at about ☐21 lakh crore and ☐112.587 lakh crore, respectively, as at September-end.

Demat shift

Another indication that investors are veering towards equity markets is the increase in the number of demat accounts. The number of accounts with the NSDL rose 7.73 per cent y-o-y in September 2017 (to 1.63 crore) against 6.52 per cent in September 2016 (to 1.50 crore).

Similarly, the number of demat accounts with CDSL, according to latest available data, increased by 15.17 cent y-o-y in the current year's Q1 (to 1.29 crore) against 13.13 per cent in July 2016 (to 1.12 crore).

The push towards equity market investments comes in the backdrop of bank term deposit rates of more than one-year duration coming down to 6.25-6.75 per cent this September from 7-7.30 per cent in September 2016. During this one-year period, the bellwether BSE Sensex jumped about 2,900 points.

"The macro (economic) environment is favouring financial savings now much more than before. There is a lot of liquidity in the system. A lot of money is lying in low-yielding savings and fixed deposits. That is why we are seeing a lot of money flowing into risky assets.

"Mutual funds are doing well. The life insurance industry as a whole is growing… and we think this trend could continue for the next two to three years at least as money moves away from real assets to financial assets," said S Sreenivasan, CFO, Bajaj Finserv.

PMLA: Carry your original ID to bank for transactions over Rs 50,000

The PMLA and its rules impose an obligation on reporting entities like banks, financial institutions and intermediaries

Press Trust of India | New Delhi October 23, 2017

The Government has made it mandatory for banks and financial institutions to check the original identification documents of individuals dealing in cash above the prescribed threshold, to weed out the use of forged or fake copies.

The Department of Revenue in the Finance Ministry has issued a gazette notification making an amendment to the Prevention of Money-laundering (Maintenance of Records) Rules.

The new rule now requires the reporting entity to compare "the copy of officially valid (identification) document so produced by the client with the original and recording the same on the copy".

The Prevention of Money Laundering Act (PMLA) forms the core of the legal framework put in place by India to combat money laundering and generation of black money.

The PMLA and its rules impose an obligation on reporting entities like banks, financial institutions and intermediaries to verify the identity of clients, maintain records and furnish information to Financial Intelligence Unit of India (FIU-IND).

As per Rule 9, every reporting entity shall at the time of commencement of an account-based relationship, identify its clients, verify their identity and obtain information on the purpose and intended nature of the business relationship.

Intermediaries like stockbroker, chit fund company, cooperative bank, housing finance institution and non-banking finance companies are also classified as reporting entities.

Biometric identification number Aadhaar and other official documents are required to be obtained by the reporting entities from anyone opening a bank account as well as for any financial transaction of Rs 50,000 and above.

The same is also required for all cash dealing of more than Rs 10 lakh or its equivalent in foreign currency, cash transactions where forged or counterfeit currency notes have been used and all suspicious transactions.

All cross-border wire transfers of more than Rs 5 lakh in foreign currency and purchase and sale of immovable property valued at Rs 50 lakh or more also fall under this category, according to the reporting rules.

The Gazette notification said in case the officially valid document furnished does not contain the updated address, a utility bill like electricity, telephone, post-paid mobile phone, piped gas or water bill which is not more than two months old can be considered as a proof of address.

Also, property or municipal tax receipt, pension or family pension payment orders issued to retired employees by Government departments, or letter of allotment of accommodation from an employer can be considered for the same purpose.

China's debt mountain

Editorial, Businessline 24 10 2017

If that implodes, the world is headed for a bout of financial and economic instability

The outgoing chairman of the People's Bank of China, Zhou Xiaochuan, dropped a bombshell at the Communist Party congress last week when he said that China could be headed for a 'Minsky moment', rattling markets the world over.

The late economist Hyman Minsky had presciently said that periods of high growth and stability generate overconfidence and a rash of speculative activity promoted by the banking system, triggering periodic financial crises, such as the 2008 meltdown.

China's total debt, household and corporate, is more than three times its GDP. To place this in perspective, the US' total debt as a proportion of GDP was about 170 per cent (against China's well over 200 per cent today) when the Lehman crisis broke out.

According to a report by Crescat Capital, the value of financial assets held by households and non-profit organisations in China is over six times their disposable income, similar to the levels seen during the 2007 housing bubble in the US and the dotcom bust of the late 1990s.

China’s banks waded through the post-2008 slowdown by creating more debt to generate a rash of infrastructure assets whose productivity was low.

Meanwhile, a shadow banking system is flourishing in China as a huge Ponzi operation (debt is used to pay debt when cash flows neither cover principal nor interest). Equities and the real estate markets are frothy. China’s elites are already taking their money out of the country.

If the crisis intensifies, China may resort to quantitative easing to clean up balance sheets, where non-performing loans could make up over a fifth of the assets.

A spurt in money supply could lead to depreciation of the currency. Even if an outright crash is somehow avoided (a state-run banking system may be able to control outcomes somewhat), the world should be prepared for a tremor more intense than in August 2015, when the renminbi was sharply devalued.

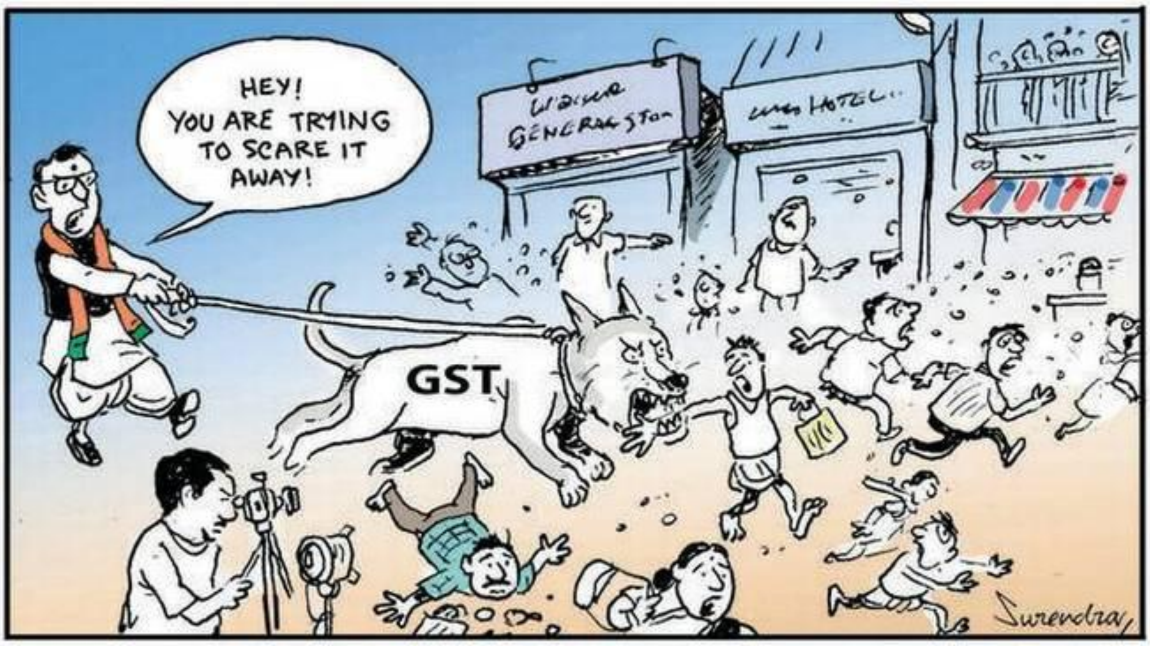
When an economy that accounts for 15 per cent of world GDP, 13 per cent of global exports and 10 per cent of global imports hits a speedbreaker it is bound to impact the rest of the world, including India.

India shouldn’t assume, as it did two years ago, that China’s loss would be its gain. A cheaper yuan may impact India’s exports in competing products.

Cheaper imports into India will further hurt India’s already struggling industries. US and EU exports to China may suffer on lower demand, which, in turn, can impact their demand for other countries’ exports.

While the recent upward trend in commodity prices may be arrested, the rupee may come under downward pressure as the dollar gains strength vis-à-vis the yuan, as in 2015.

A sudden rush to safe havens such as gold and the dollar cannot be ruled out. India must take steps to avert disruption as it grapples with its own slowdown concerns.



AIBEA THIS DAY – 22 OCTOBER	
1986	Two days Convention of Public Sector Unions including AIBEA concludes at Delhi.
1997	CC Meeting of AIBEA at Rajkot.

AIBEA THIS DAY – 23 OCTOBER	
1960	Foundation of State Bank of Mysore Employees' Union. Com. P S Sundaresan founder President Com. M J V Rao General Secretary
1977	3rd All India Conference of Bank of Rajasthan-Com. Prabhatkar inaugurates.

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