AIBEA's Banking News

8 DECEMBER, 2017

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

FinMin allays depositors' fears on bank 'bail-in' provision

FRDI Bill protects, and even expands, safeguards for consumers, it claims

K. R. SRIVATS, NEW DELHI, DEC 7: BUSINESSLINE

Responding to bank depositors' fears for the safety of their money, the Finance Ministry on Thursday asserted that the proposed resolution framework for financial firms, awaiting Parliament nod, does not take away the "present protections" available to depositors — and, in fact, provides "additional protections".

"The Financial Resolution and Deposit Insurance Bill 2017 (FRDI Bill) is far more depositor-friendly than many other jurisdictions, which provide for statutory bail-in, where consent of creditors/depositors is not required for bail-in," an official statement said.

A bail-in is a way to rescue an ailing bank or a financial institution by making its creditors and depositors take a loss on their holdings.

This statement comes in the backdrop of fears that the provisions in the Bill could get extended to bank deposits. Although the Ministry does not see any adverse impact on depositors' interest, several banking industry experts feel the provisions could create a moral hazard for banks.

The Ministry reasons that the Bill will strengthen the system by adding a comprehensive resolution regime that will help ensure that, in the rare event of failure of a financial service provider, there is a system of quick, orderly and efficient resolution in favour of depositors.

The Bill was introduced in the Lok Sabha on August 10, and is currently before a Joint Committee of Parliament. The panel's report would be considered by the Cabinet before moving amendments, if any, in Parliament.

The Ministry further said that the Bill does not propose in any way to limit the powers of the government to extend financing and resolution support to banks, including public sector banks. It reiterated that the government's implicit guarantee for PSBs remains unaffected.

UNIONS WORRIED

Bank unions had expressed anguish over certain provisions in the Bill, especially those related to "bail-in". The Bill had suggested that the use of the "bail-in" provision may result in the cancellation of a liability, which could extend to bank deposits, banking industry sources said. They termed this as the source of anxiety for depositors.

The Bill has proposed the setting up of a Resolution Corporation to monitor financial firms, anticipate the risk of their failure, take corrective action and work out a resolution plan. In the case of a bank failure, this proposed corporation will provide deposit insurance up to a limit, which has not been specified. Currently, bank deposits up to ☐1 lakh are insured.

OTHER OPTIONS TOO

The Bill not only provides for 'bail-in', but also other options to bring resolution to the financial firms on the brink of failure. These include mergers, transfer of assets and liabilities to another entity, a bridge financial entity or liquidation via the National Company Law Tribunal.

BAIL-IN EFFECT

RV Verma, former National Housing Bank Chairman, told *BusinessLine* that the bail-in provision would compromise depositors' interests, affecting their confidence in the banking system.

"In extreme situations where the government has to adopt a bail-in, it may compromise depositors' interests; the depositors' money will likely be also used for a resolution," he said, adding that in such cases, a more balanced view — a mix of a bail-in or a bailout — may be adopted keeping in view the depositors' interests.

Arun Jaitley signals rethink on Financial Resolution and Deposit Insurance bill

Finance minister Arun Jaitley has hinted that the government may backtrack on some of the controversial provisions in the FRDI bill

The objective of the government is to fully protect the interest of the financial institutions and the depositors, finance minister Arun Jaitley tweeted Wednesday.

Remya Nair, LIVEMINT 7 1 22017

New Delhi: Moving swiftly to address growing disquiet over provisions in the Financial Resolution and Deposit Insurance (FRDI) bill pending before Parliament, finance minister Arun Jaitley hinted that the government may backtrack on some of its controversial provisions.

Taking to the microblogging site Twitter, Jaitley said: "The Financial Resolution and Deposit Insurance Bill, 2017 is pending before the Standing Committee. The objective of the Government is to fully protect the interest of the financial institutions and the depositors. The Government stands committed to this objective."

The bill has received flak from various stakeholders for some of its controversial provisions including a 'bail-in' clause which suggests that depositor money could be used by failing financial institutions to stay afloat.

The bill empowers Resolution Corporation—envisaged as an oversight body to monitor failure of financial institutions and to limit the fallout of the failure of a systemically important financial institution on the overall sector—to cancel the liability of a failing bank or convert the nature of the liability.

The fact that no specific deposit insurance amount is prescribed has also been opposed by many stakeholders. At present, all deposits up to Rs1 lakh are protected under the Deposit Insurance and Credit Guarantee Corporation Act that is sought to be repealed by this bill.

"The provisions of the bill have been creating a lot of confusion in the minds of the people. Ultimately, bank deposits are considered the safest investment option by any investor," said Mamta Pathania, co-project director at National Consumer Helpline and faculty member at the Indian Institute of Public Administration.

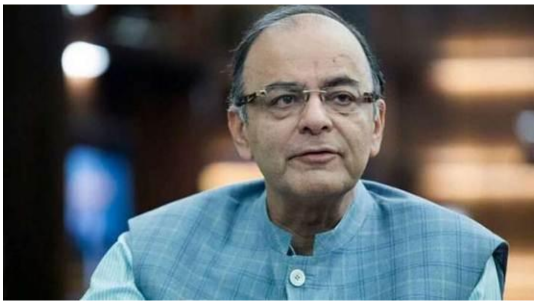
Political parties like the Congress and trade unions have characterised the provision as anti-people and anti-poor and pointed out that small depositors have to pay the price for bad lending choices of banks, especially loans given to big corporates.

Congress party is of the view that the 'bail-in' clause in the bill has been put with the purpose of absorbing bank's losses and aiding its survival.

The FRDI bill, 2017 was tabled in the Lok Sabha in August this year following which it was referred to the joint parliamentary committee. The committee will submit its report in the upcoming winter session of Parliament beginning 15 December.

The bill aims to limit the fallout of failure of institutions like banks, insurance companies, non-banking financial companies, pension funds and stock exchanges.

Jaitley holds pre-Budget consultations with trade unions, assures workers' welfare



The Statesman

6 DEC 2017

Finance Minister Arun Jaitley on Tuesday said the Central government was fully committed to safeguard the interests of the workers, especially those working in the MSME and the unorganized sector.

Holding pre-Budget consultations with representatives of different trade union groups, he said the workers were entitled to minimum wages prescribed by law and asked all the industries concerned to strictly comply with this without fail.

During the meeting, nine of the trade unions jointly gave a common memorandum on behalf of the workers they represent which contained 12 point charter of demands including increased budgetary allocations for social sector, measures to check the prices of essential commodities and stopping disinvestment and strategic sale of public sector undertakings.

They also demanded fixing minimum wages for all workers on the basis of the 15th Indian Labour Conference recommendations, and linked with Consumer Price Index.

Other suggestions included provisions for "same wages for same work", creation of support system for domestic workers, bringing about Labour Law reforms and creation of a National Fund for unorganised sector workers to provide social security, a statement from the Finance Ministry said.

"Other demands include the raising of the ceiling for income tax purposes for salaried class persons and pensioners up to Rs 5 lakh per annum, and Rs 8 lakh in case of senior citizens," it added.

They also suggested that income gap between rich and poor be checked by taxing rich people who can afford to pay.

Among the major trade groups present during the meeting included Bharatiya Mazdoor Sangh, Indian National Trade Union Congress, All India Trade Union Congress, Hind Mazdoor Sabha and National Front of Indian Trade Unions.

NPA divergence disclosures meant to increase transparency, rules remain same: RBI

After a regulatory diktat, Yes Bank, Axis Bank and those mentioned above had reported divergences in their NPAs worth over Rs 12,000 crore cumulatively for the financial year 2016-17. ICICI Bank, Axis Bank and Yes Bank also reported such divergences in 2016-17.

Beena Parmar MONEYCONTRO.L.COM

At a time when top private lenders like ICICI Bank and HDFC Bank were made to disclose the divergences in reporting of non-performing assets (NPAs), the Reserve Bank has said the rules are the same but narrative has changed to bring in more transparency.

After a regulatory diktat, Yes Bank, Axis Bank and those mentioned above had reported divergences in their NPAs worth over Rs 12,000 crore cumulatively for the financial year 2016-17. ICICI Bank, Axis Bank and Yes Bank also reported such divergences in 2016-17.

Many bankers suggested that the new disclosure rules had changed goal posts but the banking regulator today clarified it has not changed any rules and attributed the ‘divergences’ to the wrong application of the rules by the banks.

“We’ve assessed banks’ classification based on the rules they are today and we’ve found that in some cases, they have not applied those rules correctly,” RBI deputy governor NS Vishwanathan told reporters at the customary post-monetary policy press conference in Mumbai.

“I want to make it very clear that there is no change in the goalposts. The rules are as they are,” he added.

NPA transparency

According to him, what has changed is the transparency in disclosures of divergences beyond a certain percentage. “That’s actually changed the narrative,” he said.

The RBI Deputy said that the divergences based on inspection of banks’ books by the central bank happened in the past as well.

Banks started reporting divergences since this June for having under-reported NPAs in FY16. This was followed by a second round of disclosures starting October of under-reporting in FY17 by a few banks.

In most cases, the banks’ NPAs shot up by a large margin leading to higher provisions towards such bad loans impacting their profitability. Lenders such as Axis Bank and Yes Bank saw a major sell-off in their stock causing erosion of wealth for investors.

Impact on private banks

Largely, private sector lenders, which were known to be in the clean-zone as compared to public sector banks made high disclosures of the divergences and hence also bore the brunt thereby affecting their asset quality, like most government banks.

Among others, mid-sized private sector lender Yes Bank was found to have under-reported gross NPAs by a whopping Rs 11,000 crore in the two fiscals, while the third largest private sector lender Axis Bank was found to have a divergence of over Rs 14,000 crore and ICICI Bank had a divergence of over Rs 5,000 crore for FY16 alone.

In first half of the year, RBI had tweaked the rules to make it compulsory for lenders to disclose under-reporting of bad assets. Before this there was a massive book clean-up through the asset quality review (AQR) the previous year and was followed by instructions to resolve 40 largest NPAs under the Insolvency & Bankruptcy Code.

Recapitalisation of public sector banks likely to improve credit flow: RBI

The Reserve Bank of India (RBI) Monetary Policy Committee kept the repo rate unchanged at 6 percent in the fifth bi-monthly meet and pointed that recapitalisation of public sector banks will help in improving credit flow.

Moneycontrol News@moneycontrolcom

The Monetary Policy Committee (MPC) on Wednesday kept the repo rate unchanged at 6 percent in the fifth bi-monthly meet. The Reserve Bank of India maintained the status quo with a neutral stance and warning on fiscal slippages.

On the public banks recapitalisation plan, the MPC said that it help in improving credit flow. The overall business situation, which is expected to improve in the fourth quarter, is likely to be supported by the recapitalisation plan.

"Recapitalisation of public sector banks may help improve credit flows further," RBI's policy document said.

In October this year, Finance Minister Arun Jaitley had announced a PSU banks recapitalisation plan of Rs 2.11 lakh crore in a bid to shore up their finances, boost private investment and revive the economy. The plan is expected to be spread over two years to bolster banks' finances and revive the economy and is the largest such undertaking in India to date.

The bank recap plan boosted the foreign portfolio inflows into equities, which grew sharply in October. In September, outflows were recorded. India's foreign exchange reserves were at USD 401.94 billion on November 30.

The RBI also said that with more cases being referred to the Insolvency and Bankruptcy Code (IBC), which is currently in the works, will enhance allocative efficiency.

The policy document states that this is one of the three factors which will help in "reducing the cost of domestic borrowings through improved transmission by banks of past monetary policy changes on outstanding loans."

The Committee assesses that the recapitalisation, among the other developments in the last two months, has helped to bring up the sluggish growth. The capital infused has helped in raising the market by setting up new projects.

AIBEA THIS DAY – 8 DECEMBER	
1965	**Anti Automation Convention at Delhi. Bank and Insurance Unions participate.**

ALL INDIA BANK EMPLOYEES' ASSOCIATION

Central Office: PRABHAT NIVAS

Singapore Plaza, 164, Linghi Chetty Street, Chennai-600001

Phone: 2535 1522 Fax: 2535 8853, 4500 2191

e mail ~ chv.aibea@gmail.com

Web: www.aibea.in