AIBEA's Banking News

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NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Regulators fret over role overlap in FRDI Bill

WHO SAID WHAT

Several financial regulators, including the Reserve Bank of India, have objected to the Financial Resolution and Deposit Insurance Bill, 2017, either demanding that the legislation be revoked or suitably amended

- Concerned about possible overlap and clubbing of functions in the Resolution Corporation
- 'Risk to viability' should be determined by appropriate regulator, in consultation with the RC

- The dual regulatory structure may have an impact on the ease of doing business

- Has questioned Clause 14(1) of the Bill that gives the RC the power to investigate

- Powers vested with the RC are "draconian"
- RC should be under govt control or confidence in India's financial system will crumble
- Job risk categorisation should be under regulator; RC should stick to resolution/liquidation

Banks too voice concern before a parliamentary committee vetting the proposed legislation

AM JIGEESH, NEW DELHI, JANUARY 11: BUSINESSLINE

The proposed Financial Resolution and Deposit Insurance (FRDI) Bill is set to be the next big political faultline, with all the main stakeholders —

regulators, banks, stock exchanges, insurance companies and depositories — voicing serious objections to various clauses of the Bill.

The stakeholders have outlined these objections before a joint parliamentary committee (JPC) and the issues raised have led to a heated debate within the panel. The ruling NDA coalition has a clear majority in the 30-member JPC, which is headed by BJP MP Bhupendra Yadav.

BusinessLine has reliably learnt that the key objections pertain to regulatory overlap/areas of conflict between the proposed Resolution Corporation (RC), the sector regulators and the Centre; issues related to deposit insurance; bail-in and bail-out provisions; matters relating to cooperative banks and the criteria for classification of a specific service provider into low/moderate/material/imminent and critical risk to viability.

Kill bill: Opposition

The Opposition is clear that given the nature and seriousness of objections, the Bill should be killed. An Opposition MP told BusinessLine that they will urge the panel to recommend that the Centre reject the Bill. "Almost all institutions that will be party to this Bill have opposed it. We (the Opposition) will recommend that the Bill be rejected. These institutions deserve appreciation for speaking their minds," the member said.

However, the ruling coalition is not ceding ground. An MP who supports the Bill said the Department of Economic Affairs has countered every objection raised by the regulators. He blamed certain "Left-wing trade unions" for "spreading lies" about the Bill.

"The Centre has answered all the queries put by us and the regulators. The FRDI Bill is necessary as our regulatory mechanism needs to be strengthened. We are sure the panel will submit a unanimous report after hearing every stakeholder," the member said.

Specific objections

But the fine-print has several red flags. A closer examination of the nature of the objections reveals that it is not just the unions, but every major stakeholder, including the RBI, that has objected to specific clauses of the Bill. For instance, the RBI has questioned the possible overlap and clubbing together of functions if a Resolution Corporation is formed.

The dual regulatory structure may even have an impact on 'ease of doing business', ICICI Bank has warned. Banks have also expressed reservation on the Bill omitting the mention of deposits till ☐1 lakh being insured. On the bail-in provision, they have demanded clarity.

The RBI has sought amendments to clause 36(5) of the Bill, which equips the RC with powers to specify the criteria of classification of risk of a particular service provider. Currently, the sector regulator decides on such matters.

The RBI said the 'risk to viability' should be determined by the appropriate regulator, in consultation with the RC, and said the classification of risk up to the 'imminent' stage should be left to the regulator. The Indian Banks' Association has backed this proposal of the RBI.

Simultaneously, the Union Bank of India has termed the powers vested with the RC as "draconian" and said that it should be subject to the overarching power of the Centre, otherwise confidence in the financial system will crumble. It also said that Chapter 6 of the FRDI Bill creates an unwarranted conflict zone between the regulator and the RC.

'Limit RC role '

Regulators, according to Union Bank of India, are better suited to job risk categorisation and the RC's role should be confined to resolution and liquidation.

The Insurance Regulatory and Development Authority of India (IRDAI) has questioned Clause 14(1) that gives the RC the power of investigation.

On deposit insurance, the Centre is learnt to have told the panel that Clause 29(1) of the Bill gives scope for enhancement of the deposit insurance level of a depositor. The RBI suggested that a new provision should be added to the FRDI Bill to ensure that the ☐1 lakh limit continues.

The RBI also pointed out that there is no clarity on the duration for which a service provider will be required to pay a resolution fee.

The RBI is learnt to have sought a clarification on 'eligible cooperative banks' under the FRDI's ambit. It has also suggested that such banks may not be contributing to the resolution fund, and so the 'corporation

insurance fund' could be used under the resolution scheme, as is currently being done under the Deposit and Credit Insurance and Credit Guarantee Corporation (DICGC) Act, 1961.

Hot issue

The nature of objections before the parliamentary panel suggests that the ruling coalition may not be able to force the Bill's passage through its brute majority in the Lok Sabha.

Already, street agitations have begun on the issue, with the principal opposition party, the Congress, staging a demonstration before the RBI office in Kolkata last month.

RBI, Nabard flag inclusion of cooperative banks

AM JIGEESH NEW DELHI, JANUARY 11:

The RBI and the National Bank for Agriculture And Rural Development (NABARD) have raised certain objections to including 'eligible cooperative banks' under the purview of the Financial Resolution and Deposit Insurance (FRDI) Bill.

As per Clause 120 of the FRDI Bill, 'eligible cooperative banks' are deemed 'insured service providers' for two years, extendable by one year. The Bill also provides for the liability of the proposed Resolution Corporation (RC) to insured depositors of eligible cooperative banks.

The RBI said that according to the Bill, an eligible co-operative bank is defined as a co-operative bank other than a multi-state co-operative bank, and if the RC wants the power to supersede the board of a bank or to wind one up, the State cooperative law will have to be amended.

The RBI is learnt to have told the panel to seek clarification from the Centre on including the eligible cooperatives under the FRDI's ambit. The RBI also suggested that the eligible cooperative banks may not be contributing to the resolution fund so the corporation insurance fund could be used under the resolution scheme as is now being done under the

Deposit and Credit Insurance and Credit Guarantee Corporation Act of 1961.

Nabard said that incorporation, registration, election to the board/committees, audit and winding up of cooperative societies are governed by the State Cooperative Acts. Nabard told the panel that the definition of the eligible cooperatives must be in tune with the provisions of the State cooperative Acts.

Nabard has recommended that where such clauses are not there, State governments can be asked to amend their cooperative Acts as an alternative. The Centre said in its response that if States amend their laws to give the RC powers to monitor and resolve cooperative banks, it would open the door for the Central Government to notify them under the Second Schedule. It said that the FRDI Bill provisions have been taken from the DICGC Act.

2018: the year of bank resolution and recovery?

Until 2017, the focus was on recognition. Bad-loan resolution and recovery will be the themes in 2018.

Thu, Jan 11 2018. Tamal Bandyopadhyay **livemint**

Globally, bankers are expected to do three things: collect deposits, give loans and invest in government bonds and other financial instruments. In India, they end up doing a few other things as well, including cleaning up the neighbourhood where their branches are located with a broom as part the government’s Clean India Mission to promote sanitation. Ironically, the balance sheets of many banks in India at the moment are in dire need of a clean-up.

In 2015, the Indian banking community took a break from other activities to open bank accounts under a financial inclusion drive by the government aimed at ensuring access to basic banking services for every household.

Banks have opened 307.6 million accounts since the drive was launched in August 2014. Government-owned banks' contribution to this is more than 90%. At this point, the beneficiaries are keeping Rs71,232.93 crore in these accounts.

The next year tells a different story. As 2016 neared the end, bankers were busy counting notes, literally.

Over 50 days in November and December, Rs15.4 trillion worth of Rs1,000 and Rs500 banknotes—some 86.9% of the value of the total notes in circulation—were withdrawn after a historic address to the nation by Prime Minister Narendra Modi.

One of the many objectives of this black swan event was to attack the hoarders of black money, or unaccounted-for, untaxed wealth.

It was the responsibility of the bankers to check the colour of money at the more than 116,000 bank branches and stack new currency notes in 208,000 automated teller machines (ATMs) across the country.

Last year, bankers spent their time and energy in taking loan defaulters to the bankruptcy court. Weighed down by Rs10 trillion of stressed assets, they have been chasing rogue borrowers; but in 2017, it became a mission, pushed by a very aggressive banking regulator. Armed with an ordinance that empowered it to order banks to chase loan defaulters, the Reserve Bank of India (RBI) in June identified 12 loan accounts, with 25% share of gross bad loans in the system for launch of immediate bankruptcy proceedings.

At that time, the Indian central bank said lenders should finalize a resolution plan within six months for their top 500 stressed accounts; if they failed to find a resolution through other means, they should move the court for bankruptcy.

Fast losing out patience, in August, RBI followed it up with another list of 28 large stressed accounts and asked the banks to either resolve them or launch insolvency proceedings by December. Banks have a collective exposure of Rs1.4 trillion to these 28 accounts.

What will be the dominant banking trend in 2018?

One thing for sure, along with fighting pitched battles with the loan defaulters, bankers will start giving loans anew in 2018. Over the past

three years, credit growth has been poor. A weak investment climate was responsible for this.

Over-extended Indian corporations have had neither the capability nor the inclination to lift bank credit and set up new projects. This is expected to change in 2018. Better cash flows, higher capacity utilization and a pick-up in some high-frequency indicators are encouraging analysts to anticipate an upturn in private capital expenditure, if not across sectors, at least in some select pockets.

While companies were not forthcoming in lifting bank credit, bankers, too, were not willing to lend for fear of piling up more bad assets.

Banks do not earn any interest on their bad loans; on top of that, they need to provide for or set aside money for such loans. This hits their profitability. Hefty provisions have also pushed many banks into losses and eroded their capital. This is why they have been diffident in giving loans.

The government has addressed this by announcing a Rs2.11 trillion recapitalization of India's state-owned banks. While a debate is under way on whether this money will be enough to meet the capital needs of public sector banks (keeping in mind the requirements under Basel III norms, which will be in place in 2019) and how much of this infusion is growth capital, one thing is certain: there will be strings attached to disbursement of this money. RBI and the finance ministry have been jointly working on this.

Recapitalization is not something new for India's state-owned banks. Historically, the finance ministry, representing the government, the majority owner of this group of banks, decides on which bank gets how much capital.

It has been a sort of a democratic exercise where banks get funds according to their size and not their efficiency and prospects. For the first time, they would need to earn the money. There will be definite preconditions and only when they accept those conditions will the banks get a lifeline in the shape of a capital top-up.

In other words, bank recapitalization and banking reforms will go hand in hand. It may be too early to expect dramatic mergers and consolidation

among public sector banks, but we will definitely see some banks aggressively selling non-core assets and shrinking their balance sheets.

Finally, if the early indications are anything to go by, 2018 could be the first year of bad loan resolution.

When a series of restructuring exercises, packaged by the banking regulator, failed, RBI inspectors took upon themselves the job of identifying bad loans and forcing banks to recognize them as such. Until 2017, the focus was on recognition. Bad-loan resolution and recovery will be the themes in 2018

AIBEA THIS DAY – 11 JANUARY	
1978	3rd Bipartite Demands. CLC meeting at Bombay.

AIBEA THIS DAY – 12 JANUARY	
1996	Fact Finding Committee constituted on Relatively issues of 6th Bipartite Settlement
1999	Com. G G Mehta, Former President of AIBEA Passes away at Palanpur.
1999	One Day Strike in pursuit of 7th Bipartite Demands.
2009	9th B P Talks at Mumbai

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