



Grease Is Best Kept Private

The ICICI-Videocon affair and Axis Bank NPAs threaten to tar the 'pristine' image of private sector banks

L O L A N A Y A R



IN HAPPIER TIMES

Shikha Sharma (left) and Chanda Kochhar (right) at an event in 2012

India's private sector banks have always been hyped as smarter, sharper and cleaner than their country cousins, those state-run banks. But as more skeletons tumble out of the ongoing ICICI Bank-Videocon affair, of alleged nepotism, conflicts of interest and unfair trade practices going all the way up to the top boss of the bank, CEO Chanda Kochhar, a bit of their sheen has come off. This new scandal has even shifted the spotlight from the Rs. 13,000-crore Punjab National Bank (PNB)-Nirav Modi affair that only broke a few weeks ago. After ICICI hit the headlines for all the wrong reasons, the RBI has questioned the board of another private bank,

Axis Bank, about its wisdom in giving its chief managing director (CMD), Shikha Sharma, another term, considering the bank's non-performing assets (NPAs) have multiplied by more than 25 times and crossed Rs 25,000 crore by December 2017. Now many in the industry are asking, how clean are private banks?

The ICICI Bank board has spared no pains in supporting the actions of Chanda Kochhar and defending the bank's decision to grant Videocon Industries a hefty Rs 3,250-crore loan in 2012 as part of a Rs 40,000-crore consortium loan by 20 banks. Out of this, Rs 2810 crore—86 per cent of the loan—has been declared NPA.

In 2016, Arvind Gupta, whistleblower and trustee, Indian Investors Protection Council, questioned this loan through a letter to the PMO and other authorities. He pointed to an apparent business link between Videocon Industries and Kochhar's husband and his family. "I brought to light something that seemed suspicious, not transparent, not good but actually dirty in the deal," Gupta tells *Outlook*. He adds that there may be dozens of such cases if one probes the dealings of top private banks. "This may not even be the tip of the iceberg. If you read the innumerable reports in the newspapers about how companies are obstructing the NCLT [National Company Law Tribunal] machinery engaged in the resolution of the insolvency cases, it shows vested interests," he says.

It is not just Gupta who has been questioning some of the decisions of private sector banks. Earlier this month, the Central Vigilance Commission urged the government to bring private sector banks under its purview. "In a way, the CVC demand is contradictory to the P.J. Nayak committee's recommendation to free public sector banks from government interference and scrutiny by central agencies including the CVC. But, as private sector banks are not under the CVC, many things are happening, For instance, the Yes Bank management problem [an ownership struggle] is continuing, and there is also the RBI–Axis Bank tussle over the NPA issue. The RBI has over the last few months fined both ICICI Bank and Axis Bank over non-compliance with the laid-down norms," says S. Nagarajan, general secretary, **All India Bank Officers' Association.**

ICICI Bank has been fined Rs 58.9 crore for non-compliance with norms on the direct sale of securities, while Axis Bank has been fined for non-conformance with the asset classification norms. As mentioned earlier, the RBI recently also questioned the fourth three-year extension given to the Axis Bank CMD. In October 2017, Axis Bank, at the behest of the RBI, was forced to reclassify nine large corporate accounts and rebrand the entire sum of Rs 4,875.37 crore in the accounts as NPAs. C.H. Venkatachalam, general secretary, **All India Bank Employees Association**, points out, "It was the second time in 2017 that Axis Bank was forced to bump up its bad-loan count under pressure from the RBI. In May, it reported a previously undisclosed soured asset of almost Rs 9,766.6 crore. That time around, it wasn't the only financial institution to try and hide a bad egg. ICICI Bank and Yes Bank made similar disclosures." In October last year, the RBI had slapped a penalty of Rs 6 crore on Yes Bank and Rs 2 crore on IDFC Bank for violating regulations.

Institutional Investor Advisory Services (IiAS) in a report states that, in 2017-18, the Indian banking sector reported 12,533 frauds, aggregating Rs. 18,170 crore. The public sector Bank of Maharashtra reported the highest number of frauds (3,893), followed by ICICI Bank (3,359) and HDFC Bank (2,319). In terms of quantum, Punjab National Bank (Rs 2,810 crore), Bank of India (Rs 2,770 crore) and State Bank of India (Rs 2,420 crore) fared worst. "In some banks, while the aggregate quantum is low, the average fraud size is high. This indicates that the sector needs to urgently revisit and strengthen its internal financial controls," says Amit Tandon, MD, IiAS, "Such a high quantum of frauds can be attributed to weak internal controls, which can leave an indelible dent on the balance sheet of the bank. Though the banks are paying high audit fees, it is not necessarily resulting in lower frauds, which means that the overall audit quality needs to be improved."

Considering that there are, on average, around nine-ten audit processes in the banking system, the frequent failures point to laxity leading to fraud, not only in PSU banks, but also in private sector banks, including those of the new generation. Stating that they are looking into the ICICI

Bank case, Tandon says, "One thing could be that the two transactions are totally unlinked to each other. I don't buy that there is no conflict of interest....But what we need to understand is what was disclosed."



In 2016, a whistleblower warned of a link between Venugopal Dhoot's (right) Videocon and the ICICI CEO's husband Deepak Kochhar (left).

When banks report fraud, they don't report specific incidents; they only give an aggregate number. Experts feel that banks need to give more granular details about the frauds. At the end of the day, it is not just about it affecting individuals, but something that could affect the other banks as well. Over the years, several banks like Bank of Karad, Global Trust Bank and Nedungadi Bank, among others, have collapsed following large-scale frauds coming to the fore. Venkatachalam says that, since 1969, as many as 36 private banks have been put under moratoria due to mismanagement—and have gone out of existence. Many were merged with PSU banks.

One of the major scams involving private banks is the case of Standard Chartered, which survived the turbulence in the wake of the multi-crore Harshad Mehta scandal in 1992. "The PSBs may have a 75 per cent market share, but the number of banking frauds by private banks is five times that of PSBs," alleges Venkatachalam. "Of the 5,319 cases reported in 2017–18 (till September) by 29 private banks, a whopping 3,304 were from ICICI Bank. Similarly, in 2010–11, ICICI reported 10,684 of the total 19,845 cases. The second highest number was reported by HSBC at 2,383 for the same period."

An online consumer survey by local community-focussed social network LocalCircles in the wake of the PNB fraud revealed that around 35 per cent still repose faith in public sector banks, while 43 per cent don't feel secure but find them the best option. But market experts feel private sector banks are still more accountable than the government-owned ones. "Traditionally, private sector banks have been way more disciplined than their PSU cousins. Even if we go back a quarter-century to the Harshad Mehta / Ketan Parekh scams, except for some multinational banks, all the scammed banks were PSUs or cooperatives," says Raj Khosla, founder & managing director of financial services marketplace mym-moneymantra.com. Khosla feels, for INStance, that fraudulent loan disbursals like the Nirav Modi case are an extreme rarity in private sector banks.

But, as the regulator and the government exchange words on the powers bestowed on the RBI to take the necessary action to curb malpractices, every fraud erodes the common man's faith in money reposed with the banks. The current scenario calls for better controls and due diligence to ward off any further scams, whether in public or private sector banks. The final outcome of the ICICI controversy will go a long way towards establishing how serious the RBI is in tackling private sector wrongdoing.

ICICI board's clean chit to Chanda Kochhar too hasty?

Mayur Shetty | Apr 8, 2018, TIMES OF INDIA

- **The Bank's board should have appointed an external agency to look into the allegations and obtained a report: Analyst**
- **Two board members, including the govt representative were not present during the meeting that gave a clean chit to CEO Kochhar**

MUMBAI: The ICICI Bank board jumped the gun in reposing full confidence in CEO Chanda Kochhar without knowledge of what investigative agencies were looking at, according to a government source. The CBI is probing the possibility of conflict of interest in restructuring loans given to Venugopal Dhoot-headed Videocon.

Two board members - the government nominee Amit Agarwal, who has since been replaced, and VK Sharma, chairman, Life Insurance Corporation - were not at the meeting last week when the bank's board gave a clean chit to Kochhar. It is not clear whether their agreement was sought on the board decision.

Agarwal has since been replaced with Lok Ranjan though banking sources say the move does not appear to have been triggered by recent events as both are joint secretaries in the department of financial services.

What has rankled some people in government circles is the blanket statement of support for Kochhar. On March 28, the bank board issued a release stating that it reposes "full faith and confidence in its MD & CEO" and there was "no question or any scope of favouritism, nepotism or quid pro quo".

In a note following the board statement, Hemindra Hazari, a Sebi registered research analyst, had said that the directors did not address the specific allegations of the whistleblower. "The board has neither clarified anything about the specific charges nor stated that it sought information on them and was satisfied. Did the board seek clarifications about the nature of the dealings between NuPower(promoted by Kochhar's husband, Deepak) and Videocon?" said Hazari in the note.

"In my opinion the board should at least have appointed an external agency to look into the allegations and have the agency submit the report directly to the chairman," Hazari told TOI. "The statement issued to the exchange said the board finds no evidence of any wrongdoing and reposes full faith and confidence in the CEO. Since there is no contrary statement from the government or the LIC nominee, it implies that there has not been any dissent. This puts the government in an awkward

position given that its representative is going with the board statement while another arm is investigating ICICI Bank."

Although ICICI bank is a private lender now, it was historically a joint sector undertaking with shareholding from domestic financial institutions. Shareholding is predominantly by foreign institutional investors, but the government and LIC continue to have nominees on its board.

Consumer confidence now worse than in December last year: RBI survey

TNN | Updated: Apr 7, 2018, TIMES OF INDIA

HIGHLIGHTS

- ***The only area where sentiment is in the optimistic zone is in spending on essential and non-essential items***
- ***The bimonthly RBI consumer confidence survey has two components — the current situation index and the future expectations index***

MUMBAI: Consumer confidence has waned since December 2017 with respondents to an RBI survey being more pessimistic about the current economic situation and employment opportunities compared to a year ago. The only area where sentiment is in the optimistic zone is in spending on essential and non-essential items. However, here too people are less positive than they were a year ago.


The bimonthly RBI consumer confidence survey has two components — the current situation index (CSI) and the future expectations index (FEI). The CSI — or perception of current prices, jobs and overall economy — has remained in the pessimistic zone since March 2017, while the FEI followed the same trend but was not in pessimist territory.

"Households' current perceptions on the general economic situation dived sharply from the neutral level polled in the last round. Their one-year-ahead outlook also deteriorated, but remained in the optimistic domain,"

the RBI said in a statement. What this means is that while most people believe that economic growth will pick up in 12 months, there are fewer people feeling that way compared to earlier.

POSITIVE ON SPENDING AMID PESSIMISM

Main variables in RBI's survey	Current perception compared with 1 year ago		
	Dec '17	Mar '18	Chg
Economic Situation	-0.6	-8.2	↓
Income	1.1	-1.6	↓
Spending	82.1	81.7	↓
Employment	-11.0	-13.3	↓
Price Level	-86.9	-83.1	↑
Consumer Confidence Index	96.9	95.1	↓



↑ Negative sentiments with sign of improvement compared to last round
 ↓ Negative sentiments with sign of deterioration compared to last round
 ↓ Positive sentiments with sign of deterioration compared to last round

“Respondents continued to express concern about the current employment situation, and outlook for the year ahead was less positive than in the previous round,” the RBI said. Households’ assessment of the current price situation and the outlook a year ahead have broadly remained unchanged.

According to RBI sources, household expectations usually take longer to form (as against professional forecasters). At the same time, once negative expectations of price-rise set in, they take more time to overcome even if the central bank manages to get prices under control.

The responses to the survey had gone into pessimist territory from June 2013 when the rupee had crashed during the ‘Taper Tantrums’. After that, they have been largely optimistic since March 2013. They slipped back to pessimism again in the quarter following demonetisation in November 2016 and have been there ever since.

Why Public Sector Banks should not be privatised in India: Nobel Laeate Muhammad Yunus says this.

The Bangladesh-based champion of micro-finance Yunus also said that ways have to be found to stop frauds in the banking sector.

By: PTI | New Delhi | Published: April 8, 2018

Nobel Peace Prize-winning economist Muhammad Yunus has said that he is not in favour of privatisation of public sector banks (PSBs) as private banks have not shown any 'exceptional performance' in many countries. (Reuters)

Nobel Peace Prize-winning economist Muhammad Yunus has said that he is not in favour of privatisation of public sector banks (PSBs) as private banks have not shown any 'exceptional performance' in many countries. Several experts, including Chief Economic Advisor Arvind Subramanian and former Niti Aayog Vice Chairman Arvind Panagariya, had pitched for privatisation of PSBs after spate of frauds were unearthed in state-owned banks, including over Rs 13,000 crore scam in the Punjab National Bank (PNB). The Bangladesh-based champion of micro-finance Yunus also said that ways have to be found to stop frauds in the banking sector.

"Fraud in anything is bad, frauds in banks is more sensitive thing, so we have to find a way to stop it...We have private sector banks in many other countries. Their performance is not something exceptional," he told PTI in an interview. He was responding to a question on whether after the PNB scandal, does the demand for privatisation of public sector banks by certain quarters merit a view. On the tariff war triggered by imposition of duties on certain products by the US administration, he said that anything which distances one country to another is a negative thing.

"We should be working towards creating a common market, rather than building tariffs. This is a negative way of doing things. "The case of Brexit is a negative thing, thats something we should be avoiding, we should be bringing countries together," Yunus noted. Yunus, who is also the creator

of social business, said that he sees no reason for the Grameen Bank to set up operations here as India has several successful micro-credit organisations. "No, we don't want to work outside Bangladesh. But there are lots of micro-finance institutions (MFIs) in India," he observed.

A multi-agency probe is progressing into more than Rs 13,000 crore scam at PNB, involving diamond merchants Nirav Modi and Mehul Choksi. The fraud was mainly perpetrated through issuance of fraudulent Letters of Undertaking (LoUs) with the help of PNB officials. A Mumbai branch of PNB had fraudulently issued LoUs for the group of companies belonging to Nirav Modi since March 2011. Yunus and his Grameen Bank were awarded the Nobel Peace Prize for 2006 "for their efforts to create economic and social development from below". He was in India to participate in an event organised by Indo-French Chamber of Commerce and Industry (IFCCI).

WHY SHOULD AIR INDIA BE SOLD?

The first attempt at privatization was made in 2000-2001 by the BJP but failed. In 2012, a study commissioned by the Corporate Affairs Ministry recommended that Air India should be partly privatized. In 2013, the then-Civil Aviation Minister, Mr. Ajit Singh supported the move. However, the opposition led by the BJP and the CPI(M) opposed the move.

On 27 May 2017, finance minister Mr. Arun Jaitley said Air India, with a mere 14 percent market share, had debt of Rs 50,000 crore. To run Air India Indian tax payers have invested Rs 50,000 crore which can be used for other purposes. So he has put a perfectly well run government enterprise for sale to make up for the present governments inefficient tax collection and fiscal management.

The decision to allow 76 percent foreign stake in it can lead to large scale retrenchment of its 29,000 employees. The fear of job losses has been one of the major reasons for various Air India unions to be opposed to the divestment plan. Even Centre of Indian Trade Unions (CITU) and RSS-affiliated Swadeshi Jagaran Manch have opposed the move.

IS AIR INDIA'S DEBT ABNORMAL?

Air India's accumulated debt that stands at about Rs 50,000 crores. Let us examine the debt record of our leading private sector business houses.

India's largest debtor is Mukesh Ambani's Reliance Industries (RIL), has a total debt of Rs 1,87,079 crore. It also has the best record of timely paying its interest. So banks are happy to offer RIL loans.

The Tata Group's consolidated debt was \$10.7 billion or about Rs 70,000 crores on September 30, 2015. They are not amongst defaulters.

The Anil Ambani led Reliance Group has a debt of Rs 1,21,000 crore and is a major defaulter. Reliance Communications (RCom), its flagship firm, has a debt of Rs 40,000 crore. It has posted a loss every year since FY 14-15. The company is valued at Rs 13,440 crore, less than a third of its total debt. Reliance Infrastructure (RInfra) has Rs 25,000 crore of debt. Its market capitalisation is Rs 14,476 crore and is lower than its debt. Reliance Capital has debt of Rs 24,000 crore and in default. The group's other firms like Reliance Infrastructure and Reliance Defence don't earn enough to service the interest payment.

The Essar group has gross debt of Rs 1,01,461 crore and in default. Its 10 MTPA steel business that currently has a debt of Rs 40,000 crore is under the hammer.

The Adani Group's debt stands at Rs 72,000 crore. Global lenders have backed out from funding the \$10-billion coal mine development project in Australia.

The Jaypee group's debt is over Rs 75,000 crore. The group has defaulted on payment obligations worth \$350 million and is on the verge of going bankrupt.

The GMR group debt was at Rs 47,738 crore at the end of FY 2014-15. The Lanco group has debts of Rs 47,102 crore. The Videocon group has a net debt of Rs 39,600 crore and in default.

The GVK group has a debt of Rs 34,000 crore. Jindal Steel and Power Limited has debts of Rs 46,000 crore. It will be seen that our great private sector is making merry with bank funds. Most do not have assets to cover their debts.

So what is the problem if Air India has Rs 50,000 crore in debts? It is paying its creditors and cannot run away as Vijay Mallaya did or Nirav Modi and thousands of others have done. Money in the banks in India whether equity, deposits or debt belongs mostly to Indians. If the private sector can use this money with impunity for running their businesses and luxuries, why can't the public sector companies do the same, what is the need for selling them?

Rs 11.5 lakh crore of Non Performing Assets (NPAs) are owed by the private sector companies to Indian banks. Rs 4.70 lakh crore worth of NPAs were due to loans extended to the industry. The debt of Air India is normal for a company of its size. Why should a public sector company be denied funds raised from the Indian public?

CONCLUSION

Vijay Mallaya robs banks of about Rs 7000 crore and makes merry in London. Diamond dealer Nirav Modi defrauds a bank of about Rs 12,000 crore and takes off to an unknown location ruining thousands of employees and hundreds of investors. Our government is not even blinking an eye. Every NPA of the public sector bank is tax payers' money or money deposited or invested by the ordinary Indian. Air India cannot run away abroad with its 140 aircraft and thousands of crores of immovable assets. Why target Air India? Why can the government not nationalize all defaulting industries without payment and sell them off and recover the money?

The flip flop by the BJP regarding Air India privatization is mysterious. It wanted it in 2000-01 but opposed it in 2013. It has again initiated it. The government did not mind spending about Rs 72,000 crore on demonetization (Rs 36,000 crore on printing new notes and Rs 36,000 crore on reduced RBI dividend). Is the government out of money to spend

and is desperately selling whatever it can? *Or is the government planning to gift it to a consortium of crony capitalists like Adani Group of Gujarat in return for generous political funding for the 2019 general elections? Whatever the reason behind the move, Air India belongs to the people of India and no government has the right to gift it away to a crony capitalist who will borrow from the same banks to finance the purchase and not return the money.*

I rest my case. Oh readers! Please decide whether Air India should be sold. If the answer is no, please do all you can to stop the sale.

I request Rahul Gandhi and all other opposition leaders to oppose the proposal in and outside the Parliament. If Indian railways can have budgetary support, if state transport can have budgetary support, if "gaushalas" for unproductive cows can have budgetary support, when BJP state governments can spend thousands of crores in preparing Unique Identity Cards for cows, bullocks and bulls, why should Air India not get budgetary support? Air India provides subsidized air travel to people of the North East, Andaman Nicobar and Lakshadweep. It is available to the Indian government for emergencies like evacuation of Indians from Kuwait and moving troops from one sector to another in time of war.

Air India is a national asset.* It should be freed from political and bureaucratic interference and handed over to competent persons like Captain CD Gopinath. Then it will shine like the other "navaratnas."

The article is written by Retd Colonel Bhaskar Sarkar.

ICICI Bank: Govt changes its nominee on the Bank Board

K.R. SRIVATS NEW DELHI, APR 7

The Centre has replaced its nominee on ICICI Bank's Board with effect from April 5.

Lok Ranjan, a joint secretary at Department of Financial Services in the Finance Ministry, has replaced Government nominee Amit Agrawal, sources said.

This move comes at a time when this private sector lender is facing a controversy over alleged irregularities in grant of Rs 3,250 crore loan to Videocon group.

It may be recalled that the Central Bureau of Investigation had a week back registered a preliminary inquiry against Deepak Kochhar, husband of ICICI Bank's MD & CEO Chanda Kochhar. The investigating agency also named Venugopal Dhoot, Chairman of the Videocon Group, besides unidentified others in the preliminary inquiry

Earlier this week, the ICICI Bank Board had issued a statement reposing "full faith and confidence" in Chanda Kochhar and had said that a review found the bank's internal processes for credit approval to be robust.

AIBEA THIS DAY – 8 APRIL	
1968	Defense of Trade Union right week observed all over the country against 36AD social Control Bill.
1994	One Day All India Strike by AIBEA –AIBOA- BEFI against Privatisation of banks and Branch closers.
1999	Second round talks – 7th Bipartite discussions.
2010	BP talks IBA/UFBU

AIBEA THIS DAY – 9 APRIL	
1951	Supreme Court nullifies Sen Award by 5 Votes against 4 votes in favour.
1975	Com. P M Issac, Veteran AKBEF leader (Central Bank) Passes away.
1977	Formation of Tamilnadu Primary Land Development Bank Employees Association. Com. N Sampath, President.
1996	Convention of Private Sector bank Unions at Mangalore.
2001	UFBU meets FM on Pension Option, Recruitments etc.,



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