AIBEA's Banking News

30 APRIL 2018

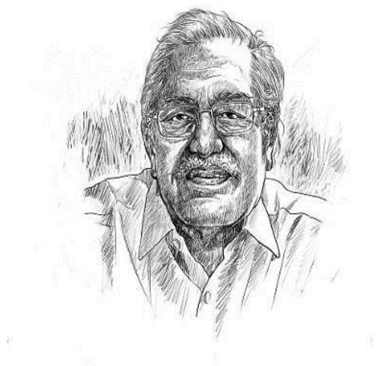
NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

IBC killing banks, likely to help borrowers like Mallya: AIBEA General Secretary

'The government is doing a blunder', according to C H Venkatachalam

Interview by Gireesh Babu , April 28, 2018

Business Standard



***C H Venkatachalam*.**

The All India Bank Employees Association (AIBEA), the oldest and largest national trade union of bank employees in India, has been raising bank-related policy and regulatory issues for decades. In an interaction with Gireesh Babu, **C H Venkatachalam**, General Secretary of the Association, speaks about its perspectives on the current banking crisis and what the government should do.

Edited excerpts:

What, according to you, are the reasons for the crisis faced by banks in India?

With development finance institutions such as ICICI and IDBI becoming banks, and with economic growth leaving banks with surging deposits but not many retail lending opportunities, commercial banks were compelled to lend to huge projects for which they did not have the expertise. There are people who took loans but were not able to repay. There are crooks who know that banks are under compulsion to lend, and came up with huge projects so that they could cheat. The banking crisis is a combination of many factors.

The Government must have a deep understanding of this crisis. On the one hand, it says it wants to give autonomy to banks, and, on the other hand, it interferes in many routine matters. The government should support banks if NPAs occur because of genuine reasons and take action against crooked businessmen who are responsible for them. Or else, banks will not be viable in the long term. This will erode the confidence of people in the banking system. Bank deposits are an important conduit for social capital.

Private sector banks too are facing issues. What is your take on this?

So far allegations have been that public sector banks are irresponsible, inefficient, not making profits, a drag on the economy, etc. After the Punjab National Bank-Nirav Modi fraud, many people said it was time to privatise the public sector banks. Some wanted IDBI Bank to be modelled on Axis Bank. Now you have seen what happened in Axis Bank. ICICI Bank was built as a role model for the banking industry. Now the balloon has burst.

In 1961, Deposit Insurance Corporation was set up, and a special clause, Section 45, was added to the Banking Companies Act, as demanded by the AIBEA, to merge failed, small banks with other banks. Hundreds of private banks were closing then and several were merged into public sector banks.

The government has brought in the Insolvency and Bankruptcy Code (IBC), bank recapitalisation, and several other measures. Do you think it is not doing enough?

The IBC route is neither beneficial to banks nor helpful for the borrower. It is killing banks and enterprises. Through this route, banks will not get all their money back. Their sacrifice will be very high. It will result in huge haircuts, a minimum of 50 per cent. Genuine people who are caught in economic stagnation will lose everything and thousands will lose jobs.

On the other hand, it is likely to benefit crooked borrowers. For instance, the IBC proceedings in the case of Vijay Mallya are against Kingfisher Airlines, not Mallya. So the company and its employees will suffer and the banks will take a haircut, but Mallya can start another business. The Reserve Bank of India must publish the names of wilful defaulters.

The government is doing a blunder. Instead of helping banks to recover their money, it has brought in the Financial Resolution and Deposit Insurance (FRDI) Bill. There is a clause in the Bill that if the bank faces liquidation, the government will not bail out the bank and the depositors' money will be utilised to bail it out. This is creating panic among depositors.

While the government says it is recapitalising banks to the tune of Rs 2,110 billion, the capital given to the banks is just Rs 180 billion. This would create a wrong impression among the public that banks are not utilising the opportunity offered by the government. More loans need to be disbursed because our bank loan to GDP ratio is 46-47 per cent, while it is as high as 110 per cent in some countries.

What is your take on the cash crunch in certain regions?

This government's understanding of many economic problems is superficial. It has no answer to how more than demonetised money has returned to the banking system after demonetisation. This shows its understanding of black money is shallow. After demonetising Rs 1,000 notes, it brought in Rs 2,000 notes, which is foolish because the idea was to curb black money.

This has hit banks very badly. Banks deal with almost 600 million people. Agriculture, the rural economy, and small-scale industry suffered because of this. They are yet to come out of the mess it created. Maybe to push its digital agenda, the government is reducing the printing of notes of smaller denominations. The problem is how to take the masses to digital banking. If you create a scarcity, they may be compelled to switch to digitisation.

How are these affecting bank employees?

There are about 1 million employees and officers in banks. The cash shortage affected them daily. There was rationing in many places. Customers shout at them, not at the finance minister or RBI governor. The government is forcing its schemes on public sector banks. If private banks are so efficient, why is the government not going to them with such schemes? There are about 200,000 vacancies in banks. The existing staff is being pressured to cope with the increased volume of work. Banks are outsourcing core jobs to agencies. Public sector banks must have people on their permanent rolls.

The idea of merging public sector banks is abroad. What is your stand on this?

Privatisation, the weakening of social banking, and consolidation are three demands companies have. Banks have deposits of Rs 1,100 billion, which is people’s money. If they are privatised, corporates will control people's money. If the government privatises banks, corporates would like the big ones to be put on the block. The Government says through consolidation banks will become bigger. India needs stronger, good banks and not necessarily big banks. Big banks are not necessarily good banks.

Also, even if they consolidate, our banks will not become big. Today there are 20 public sector banks whose capital is only $3 billion, so even if all the 20 are consolidated into one bank, the capital will be $3 billion, whereas in the global banking scenario, multinational banks' capital size is in the range of $60-80 billion. Consolidation will be on the agenda when growth is saturated. In India, it is still under-banked. We need banks' expansion, not consolidation. In America, with around one-third of the Indian population, there are more than 300 banks. So we can afford to have more banks.

Is the RBI over-regulating or under-regulating banks?

The RBI's regulations are adequate and are one of the best in the world. That is why the Indian banking system has been safe so far. The government is trying to weaken those regulations under corporate pressure to liberalise and de-regulate. It is also a matter of regret that the RBI is not using its powers effectively. If the RBI had monitored the banks' working, such huge accumulations of bad loans would not have taken place and many private banks would not have faced problems since their weakness would have been detected much earlier.

Why India's financial inclusion drive may be running out of steam

India has the highest share of inactive accounts in the world, the latest World Bank survey on financial inclusion shows

India's share of inactive accounts, at 48%, is the highest in the world, the World Bank notes in its report based on the survey

Apr 25 2018 | Dipti Jain

live mint

Bengaluru: Among the 10 largest emerging markets in the world, belonging to the G20 group, India today has the highest share of people with an account in a financial institution (or mobile money provider). That's the good news from the 2017 global findex database published last week by the World Bank.

The bad news is that nearly half of those account-holders don't use those accounts. India's share of inactive accounts, at 48%, is the highest in the world, the World Bank notes in its report based on the survey.

As the first chart shows, India has witnessed the largest improvement in access to financial services over the past three years among peers. India improved its ranking from the seventh position among the 10 largest emerging markets in 2014 to reach the top position along with China in 2017. However, greater access to financial services has not translated into commensurate gains in use of financial services.

To be sure, the inactive accounts may not be necessarily dormant, as they may be used for long-term saving. However, the lack of use over the past year suggests that use of financial services or digital modes of payments are yet to become a regular feature in the lives of most Indians.

The overall usage of digital modes of payment rose 10 percentage points between 2014 and 2017 to 29%. Yet, this is much less than the average usage of digital payments across the 10 largest emerging markets, which stands at a little above 50%. The World Bank's findex database is based on a survey of 150,000 people across 144 economies of age 15 years and older. In India, 3,000 people were surveyed between April and June 2017 for the latest round.

The high share of inactive accounts suggests that many beneficiaries of the Pradhan Mantri Jan Dhan Yojana (PMJDY) either don't have money or they lack any strong incentive to use the formal banking network. Recent data from the PMJDY portal shows that the growth in average balances in Jan Dhan accounts has tapered off over the past year, after peaking in early 2017.

Nearly one-fifth of accounts under PMJDY as of December 2017 had remained unused for two years, a recent *Economic & Political*

Weekly paper by the economists Dipa Sinha and Rohit Azad showed. Further, very few people have benefited from the overdraft facility that is supposed to be provided to the accounts under the scheme, they wrote. As of December 2017, only about 1% of account holders have been able to use the overdraft facility, data from an RTI reply cited by the authors show.

"If people are only opening bank accounts but neither have the money to save nor find actively operating bank accounts a viable option, then the claims of financial inclusion only remain superficial," Sinha and Azad wrote.

The evidence from the findex database and the official data from PMJDY both suggest that all is not well with one of the world's most ambitious financial inclusion initiative.

Good news for LIC staff: Employees to get off on second and fourth Saturdays

LIC employees will soon get an off on every second and fourth Saturdays of a month with the government approving their long-standing demand.

The government has made changes in the Negotiable Instrument Act enabling employees of the LIC to get holiday at par with public sector banks, sources said.

PTI | April 25, 2018
THE FINANCIAL EXPRESS

LIC employees will soon get an off on every second and fourth Saturdays of a month with the government approving their long-standing demand. According to official sources, this is in line with the practice followed for public sector banks. The government has made changes in the Negotiable Instrument Act enabling employees of the LIC to get holiday at par with public sector banks, sources said.

LIC employees were demanding this for long, sources said, adding that the business would not be affected as other remaining Saturdays are full working days. In case of a month having five Saturdays, LIC will be closed only on second and fourth Saturdays. As of now, Saturday is a half working day for LIC staff. So instead of four half working day on Saturday, they will get two off and remaining Saturday of a month as full working day. In 2015, the government accepted the long-pending demand of bank workers to declare second and fourth Saturdays as holidays, with effect from September 1. LIC is the country's largest insurer.

India has to create more formal jobs: World Bank

World Bank says regardless of how work may be changing, for low and middle-income countries, it is persistent informality and low-productivity employment that poses the greatest challenge

The World Bank said informal workers show resourcefulness in handling the constraints they face, but the businesses they run are too small to raise the livelihoods of their owners

Apr 26 2018 | Asit Ranjan Mishra

live mint

New Delhi: Making a case for creating more formal jobs, the World Bank in its draft World Development Report 2019 said in India the pay-offs in the formal sector are over twice as much as in the informal sector, which is among the largest in the world.

The Bank said regardless of how work may be changing, for low and middle-income countries, it is persistent informality and low-productivity employment that poses the greatest challenge.

“Since 1999, India has seen its IT sector boom, become a nuclear power, broken the world record for the number of satellites launched in a single rocket and achieved an annual growth rate of 5.6%. Yet, the size of its informal sector has remained around 91%,” the World Bank said.

In another draft report titled Systematic Country Diagnostic (SCD) for India released in February, the World Bank said India needs to create regular, salaried jobs with growing earnings rather than self-employed ones, in order to join the ranks of the global middle class by 2047—the centenary of its independence.

The reports add to the current debate started after Prime Minister Narendra Modi said selling pakodas was also a kind of employment.

The World Bank said informal workers show resourcefulness in handling the constraints they face, but the businesses they run are too small to raise the livelihoods of their owners.

The draft World Development report said that self-employment, informal wage work with no written contracts and protections, and low-productivity jobs more generally are the norm in most of the developing world.

“Informal firms are run by uneducated owners, serve low-income consumers, and use little capital—informal firms add only 15% of the value per employee of formal firms. They also rarely transition to the formal sector,” the report added.

The Bank said governments can encourage formal private jobs for the poor.

“Improvements in infrastructure in towns and villages could encourage formal firms to establish themselves near poor workers. While small-scale informal enterprises are unlikely to formalize and grow, the owners of informal firms can obtain formal jobs,” the World Bank added.

In a report titled ‘Jobless Growth?’ released earlier this month, the World Bank said to keep employment rates constant, India needs to create 8 million jobs per year as it adds 1.3 million to the working-age population every month.

The government on Wednesday released employment data from three social security organisations which showed India added some 3.46 million people to the formal workforce between September last year and February 2018.

They, however, do not give a clear picture on whether these are new jobs or a result of formalization of existing informal employment due to factors such as the implementation of the goods and services tax (GST).

The lack of credible and periodic data on job creation in the economy has been a major weakness of India's statistical system. It has often led to charges and counter-charges of jobless growth in the country.

The Narendra Modi-led National Democratic Alliance government has recently decided to start counting jobs created in the non-farm informal sector, expanding the scope of job creation in the country.

The government has asked the labour bureau under the Union labour ministry to begin counting jobs created in establishments deploying less than 10 people. Effectively, it means that establishments and shops run by a single owner or with one employee too will be counted as employment generation.

Data from this new measure of employment based on an establishment survey is expected to be released either by the end of this year or in the first half of 2019.

In July 2017, a government task force headed by then NITI Aayog vice-chairman Arvind Panagariya had suggested adopting a "pragmatic definition" of formal workers.

Cash crunch: Income Tax Department seizes Rs.14.48 crore from hoarders

Searches were carried out against "prominent" PWD contractors in poll-bound Karnataka, who were awarded contracts in January-March this year

PTI
NEW DELHI, APRIL 26, 2018
THE HINDU

The Income Tax Department seized Rs.14.48 crore in cash during raids at multiple locations, including in poll-bound Karnataka, in the wake of the recent cash crunch in the country, officials said on Thursday.

They said the department raided a number of entities that were found to be hoarding cash in various States.

"The total cash seized in these searches is Rs.14.48 crore and the seized currency is largely in the higher denominations of Rs.2,000 and Rs.500," a senior official said.

The officials cited some instances in this context. Searches were carried out against "prominent" PWD contractors in poll-bound Karnataka, who were awarded contracts during January-March this year, they said.

The searches carried out last week led to the unearthing and seizure of Rs.6.76 crore in cash, mainly from the benami lockers detected during the operations, they said. Over a dozen contractors in Mysore and Bengaluru were covered as part of the action, they said.

Books of accounts not maintained

Some of the searched assessees were found to be not maintaining the books of accounts, they said.

The Rs.6.76 crore seized last week took the total amount of seizure in the poll-abound State since the announcement of election schedule to Rs.10.62 crore. The taxman has also seized jewellery worth Rs.1.33 crore from the State.

In the Hyderabad region, the raids were conducted by the department on two realtors that led to a seizure of Rs.5.10 crore of "unaccounted cash" in the high value denominations, they said.

In a similar action in Punjab's Khanna district, a group engaged in manufacture and sale of cattle feed was searched and it led to the seizure of cash amounting to Rs.2.62 crore along with jewellery and bullion of Rs.66.49 lakh, the officials said.

The group was making purchases and sales outside the books in cash and was showing a very low profit ratio and five lockers of the group were under the attachment ordered by the tax authority, they said.

The Central Board of Direct Taxes (CBDT) recently asked the investigation wings of the I-T Department to check the cash crunch crisis after many ATMs across the country went dry.

IDBI Bank fraud case: Sivasankaran booked for cheating by CBI

Manojit Saha & Devesh K. Pandey
NEW DELHI/MUMBAI, APRIL 26, 2018

Rs.600 crore loss caused to IDBI bank

The Central Bureau of Investigation has booked 15 former and serving senior IDBI Bank officials and 24 others, including Aircel founder C. Sivasankaran, 11 companies and their directors for allegedly cheating the bank to the tune of Rs.600 crore.

After registering the FIR on a reference from the Central Vigilance Commission, the agency conducted searches on the premises of the accused at 50 locations in Delhi, Mumbai, Chennai, Faridabad, Gandhinagar, Bengaluru, Belgaum, Hyderabad, Jaipur and Pune.

The CBI has alleged that the then senior bank officials and others committedfraud through loan accounts of Axcel Sunshine Limited, which has its office in British Virgin Islands, and the Finland-based Win Wind Oy.

Among the accused top bankers are M.S. Raghavan, the then CMD; Kishore Kharat, then CMD (currently CMD and CEO of Indian Bank); former deputy managing director (DMD) B.K. Batra; and then DMD M.O. Rego, who is now MD and CEO of Syndicate Bank, said the agency.

"Mr. Sivasankaran, a citizen of Seychelles, is not in India right now. He, being the chairman of Siva Group of companies, is also an accused in this case," said a CBI official.

In October 2010, the bank sanctioned Rs.322 crore in loans to Win Wind Oy, which later applied for bankruptcy in Finland in October 2013. The amount was declared a non-performing asset, said the CBI. In February 2014, the bank sanctioned another loan of Rs.523 crore to Axcel Sunshine, an associate of the Siva Group.

"The funds were used to repay loans of other group companies, including Win Wind Oy," said the official.

Seychelles-based Siva Investments and Holdings Limited is an entity of the Siva Group and Siva Investments is a holding company of Win Wind Oy, the CBI said.

According to the agency, then IDBI independent directors P.S. Shenoy, S. Ravi and Ninad Karpe; executive directors Vinay Kumar and B. Rabindra Nath; and G.M. Yadwadkar, the then executive director and current DMD, have also been arraigned along with Subroto Gupta, the then chief general manager and now an executive director, and others.

Axis Bank posts Rs.2,189 crore loss in Q4

Credit risk performance disappointing, says CEO Sharma; bank not to extend project loans anymore

SPECIAL CORRESPONDENT
MUMBAI, APRIL 26, 2018
THE HINDU

Axis Bank has reported a loss of Rs.2,189 crore in the quarter ended March 31, due to an almost threefold increase in provisions. This is the private sector lender's first ever quarterly loss since its incorporation in 1993.

During the same period of the previous year, the lender posted a net profit of Rs.1,225 crore. Fresh slippages to non-performing assets during the quarter was Rs.16,500 crore, of which about Rs.13,900 crore came from the corporate loan book.

The power sector contributed 41% of the slippages, while another 14% was from infrastructure and construction. Provisions during the quarter increased from Rs.2,581 crore to Rs.7,180 crore.

Gross NPA as on March 31 was 6.77% of the gross advances as compared with 5.04% a year ago.

MD and CEO Shikha Sharma said that the bank's performance with regard to credit risk was disappointing.

"We made some significant bets on the infrastructure sector, which have turned out poorly in this credit cycle. Consequently, our NPA ratios have risen materially over the last two years," she said, adding that the bank was correcting its course since 2013 by re-orienting the corporate lending business towards working capital loans. "This journey continues," said Ms. Sharma, who has decided to step down from the chief executive's post from January.

Chief financial officer Jairam Sridharan made it clear that the bank would stay away from project loans.

"We are not likely to pursue long gestation project loan type products as much in the future given what we have seen. Our corporate credit strategy is all towards working capital to higher clients, transaction banking and liabilities oriented business," Mr. Sridharan said during the post earnings conference call.

NPA recognition

The bank, however, asserted that the asset quality recognition cycle was nearing an end after it significantly accelerated NPA recognition in the fourth quarter. "Much of the NPA came from BB [rating] and below book," Mr. Sridharan said.

"The BB portfolio reduced by 44% in the fourth quarter and down from Rs.16,500 crore to Rs.8,900 crore. This now forms 1.8% of the customer assets," he said, adding that the below investment grade book was now one-fourth of its peak.

Mr. Sridharan said for the last multiple quarters, all new NPAs were coming from the same pool which were BB and below assets.

"So, as long as the pool is coming down, the stock or the fountain head from where these new NPAs are coming is getting smaller and smaller. That's what gives me confidence in saying if this is the place where all NPAs are coming and it is one-fourth of what it used to be seven quarters ago, that probably is a strong indicator that most of it has been recognised [as NPA]," he added.

While making significant provision for NPAs, the bank maintained a healthy provision coverage ratio of 65%.

Deposits in Jan Dhan accounts cross Rs.80,000 crore

PTI NEW DELHI, APRIL 22, 2018

THE HINDU

The deposits, which have been steadily rising since March 2017, were at Rs.80,545.70 crore on April 11, 2018, said finance ministry data.

Total deposits in Jan Dhan accounts crossed Rs.80,000 crore mark with more people joining the flagship financial inclusion programme, according to official data.

The deposits, which have been steadily rising since March 2017, were at Rs.80,545.70 crore on April 11, 2018, said finance ministry data.

Pradhan Mantri Jan-Dhan Yojana (PMJDY) accounts had come into focus during the demonetisation period when the deposits witnessed a meteoric rise.

The latest report of the World Bank titled Global Findex Report, 2017 released last week cited the success of the Jan Dhan Yojana.

India's financial inclusion efforts have won recognition from the World Bank as their data indicate that 55% of new bank accounts opened are from India, Financial Services Secretary Rajiv Kumar had said.

The deposits increased in the later part of November 2016 to over Rs.74,000 crore from about Rs.45,300 in the beginning of the month as people rushed to deposit the scrapped currency notes of Rs.500 and Rs.1,000, as per the government data.

Thereafter, deposits in the accounts dipped before picking up again in a steady manner from March 2017. It increased to Rs.73,878.73 crore in December 2017 , to Rs.75,572 crore in February 2018 and further to Rs.78,494 crore last month.

The number of people joining the financial inclusion programme too is on rise.

The number of account holders increased to 31.45 crore on April 11, 2018 from 26.5 crore at the beginning of 2017. As per the data, the number of such account holders was 25.51 crore on November 9, 2016, the day demonetisation came into effect.

Director-Business Services of AISECT Abhishek Pandit said the impact of note ban on Jan Dhan accounts could be gauged from the fact that "the average deposits in such accounts operating through our banking kiosks stood at Rs.480 per account before demonetisation, which increased to Rs.1,095 per account after that".

Launched in August 2014, PMJDY is a national mission for financial inclusion to ensure access to financial services — banking/ savings & deposit accounts, remittance, credit, insurance, pension.

As per the Global Findex Report, adult bank account holders in India increased to 80% in 2017 as compared to 53% in 2014 and 35% in 2011, Mr. Kumar had said.

Women at the forefront, he said, highlighted a sharp fall in gender gap from 20% in 2014 to 6% in 2017 in bank accounts due to government's efforts. The report acknowledges impact of government policy in reducing gaps in bank account ownership between rich and poor to 5 per cent in 2017, down from 15 per cent in 2014, he added.

The report also noted that the number of account holders in the country had risen from 35% of the adults in 2011 and 53% in 2014 to 80% in 2017.

'IBC silent on post-sale glitches'

K.T. Jagannathan CHENNAI, APRIL 21, 2018

THE HINDU

Code must be revisited to solve practical issues, analysts say

The Insolvency and Bankruptcy Code (IBC), despite being welcomed as a very good piece of legislation, appears to have overlooked certain glitches which are likely to arise post the sanction given to a resolution plan, according to analysts.

According to P.H. Arvind Pandian, senior advocate who practices corporate law, the code has been silent on the treatment of issues that could occur during the implementation phase of a resolution plan. What if a deviation from the sanctioned plan happened due to business-related exigences? In such a situation, can they revisit NCLT (National Company Law Tribunal) for a modification in the plan? Or, will that be tantamount to failure of the resolution plan? If that happens, will the company be pushed into liquidation? These issues remain grey areas as of now in the IBC.

According to corporate analysts, the erstwhile BIFR (Board for Industrial and Financial Reconstruction) used to offer adequate opportunity to modify, amend and extend the terms of resolution in line with the evolving situation. No such relief is available under the IBC, they point out.

Also, the code, according to them, does not clarify the status of a creditor who, for whatever reason, has failed to stake his/her claim prior to the sanctioning of the resolution plan. Do such creditors have any right to seek settlement of their financial obligations under the sanctioned plan? Similarly, there is no clarity on whether a creditor has the the right to revisit NCLT should there be a payment default post the sanctioning of resolution plan and the cool-off period thereof if any. "As we go along, these practical issues will need to be addressed. At least, the code needs to be revisited to bring clarity,'' Mr. Pandian said.

Role of IPs

A view gaining ground is that the role and responsibility of the insolvency professionals (IPs) need to be redefined. At the moment, IPs focus only on compliance, creditors and the like. IPs without domain knowledge of the business, analysts feel, may prove counter-productive in the whole exercise.

Commercial sense is as much a requirement for IPs if the process were to throw up a workable, approved-resolution plan, they aver.

A treatment for the bad loan disease

KK KOTHARI

THE HINDU BusinessLine

There are five important antidotes that the government can administer to banks to prevent a relapse

There is a depressing similarity between the Vijay Mallya and Nirav Modi cases. Both of them cheated the Indian banks of over Rs.22,000 crore and are enjoying their ill-gotten gains after fleeing India. But to put the matter into perspectiveRs.22,000 crore is a small fraction of the total Non-Performing Assets (NPAs) of banks that runs into lakhs of crores.

The figures are astronomical and mind boggling. A very large percentage of these NPAs are loans to corporates. Defaults by retail borrowers are small. From this it is obvious that the banking system is being exploited by willful defaulters — mainly large borrowers — capable of "pulling strings'' to get their loans passed without a thorough scrutiny or project appraisal. These unscrupulous borrowers either exploit the inefficiencies in the banking system or collude with bank officials to defraud the system.

It may not be possible to completely eliminate NPAs. But structural reforms in two areas could definitely improve the situation significantly: One, the management of PSBs, and two, handling of cases of bank frauds by investigating agencies. The scope of this article is limited to suggesting five steps which, if implemented, would go a long way in reducing NPAs over a period of time.

Selection criteria

First, the system of selection and appointment of top officials — executive directors, board members and chairperson — in banks needs a complete overhaul.

The person at the helm of the affairs can make or break an organisation. The quality of top management is one of the main problems in PSBs. There is political interference in the selection process. Merit is seldom considered as the main criteria. Expecting an official who paid for his or her promotion to be upright or righteous is asking for too much. His or her priority would be to recover the cost with interest and make as much as possible for the future.

Such officials would also be compelled to advance loans whenever 'a request' is received from his or her mentors in 'Delhi', often without an appropriate credit appraisal. Inevitably many such loans become NPAs and at some stage have to be written off.

The accountability systems in banks are practically non-existent, which works to the advantage of all concerned — the borrower, senior officials and the powers to be in Delhi.

The country has had very competent and honest bankers such as RK Talwar, former Chairman of SBI, who stood their ground notwithstanding the consequences. Since he refused to toe the line, he was shown the door. But he chose to go rather than hurt the interests of the organisation he served. But Talwar was an exception.

So, the first reform should be to put in place a mechanism to ensure selection of competent and honest bankers.

Skilling senior staff

The second step should be to ensure that senior bankers are well trained in project appraisal. Project finance requires different skill sets than those acquired by bankers in routine banking operations. Earlier, development financial institutions such as ICICI and IDBI had strong project appraisal departments. Large international banks have specialised set-ups for every industry where employees are trained in assessing long-term trends and the viability of the project for which the loan is proposed to be advanced.

The public-sector banks have no institutional mechanism to develop such skills.

Most of the financing is, therefore, balance sheet financing which come with their associated problems. In some cases, branch managers or officers, whose careers are mostly spent at the branch level, clear large loans. Without the required skill sets, even with the best of intentions, these loans will turn NPAs.

In the context, it is relevant to recall what SS Nadkarni, another brilliant banker, said on project financing: “I never finance a balance sheet; I finance a project and the people behind the project.”

Strengthening vigilance

The third step would be to strengthen the vigilance departments. There is no effective vigilance mechanism in PSBs. The vigilance department manages to net only the small fry, where many mid-level or junior officers are punished for small procedural lapses.

Even if the vigilance finds any lapses on the part of top officials, they are seldom reported. An effective vigilance department would be able to detect a ‘quid pro quo’ in awarding a loan or a nexus between a bank official and a rogue borrower in flouting the norms.

Time-bound probe

Fourth: There is a need for time-bound investigations. Some cases of large NPAs which are in the public domain or there is evidence of willful default are referred to Central Bureau of Investigation (CBI). The agency takes years to conclude a case, by the time many witnesses would have retired and forgotten the details of the case or even be dead. It should be made mandatory that every case should be concluded in two years. In exceptional (more complicated cases) situations, it could be extended to three years.

Raising accountability

Fifth: The government is the majority owner of PSBs and it has a big say in their management. Usually, the government is represented on bank board by bureaucrats from the Ministry of Finance. These officers often come with little experience or knowledge in banking. They may be brilliant officers but by the time they learn the elementary lessons in banking and financial services their term usually ends. But being the representatives of the owner as well as being closer to the political powers, they exercise a disproportionately large influence on the decisions taken by the Board. Yet the irony is that they are never held responsible for the decisions which they foist upon the Board.

So the system needs to change. One way could be to appoint officers for a longer period of time in the same ministry and provide them with training in banking and financial services. Another option could be to induct of professionals from the industry who could bring in necessary expertise.

Finally, the regulator — the Reserve Bank of India — has a major role in safeguarding the health of banks. It cannot absolve itself from this responsibility just by ` announcing quick-fix-measures immediately after a fraud is unearthed. The RBI has enough powers even to replace a bank board when it comes to safeguarding the depositors' money.

The rot in the Indian banking system is deep but it can be treated. Unless the measures suggested are implemented effectively, the banking system would continue to be a cash cow for the politicians, bureaucrats, and businessmen. And the people of India, including the poorest of the poor would continue to pay the price.

Wage Talks in Banks to resume on 5th May

Bipartite talks between Indian Banks' Association and the Bank Unions will resume on 5th May, 2018 at Mumbai. The 11th industry level wage settlement is due from November, 2017. Even though discussions were going on between the IBA and the Unions from May last year onwards, there were no talks held after the last round of discussions held in November, 2017. An impasse was developing and hence the United Forum of Bank Unions gave a call for strike on 15th March, 2017. In the meantime the IBA invited the Unions for Talks on 21-2-2018 but this meeting was cancelled in the wake of Nirav Modi-PNB fraud. Unions also deferred the strike looking to these developments. The Unions met the Finance Minister and Secretary, Department of Financial Services on 22-3-2018 urging upon them to advice IBA to resume the talks. Now the talks are being resumed on 5th May.

AIBEA THIS DAY April 30	
1949	Governor General C Rajagopalachari (Rajaji) issues ordinance on ID act including Banking and Insurance Sector.
1991	Other Unions in Banking industry observe strike opposing our pension demand.
1993	All India Dharna on wage revision, pension, Privatisation issue by Bankmen & Insurance employees.

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