AIBEA's Banking News

22 23 MAY 2018

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

The new bankruptcy code yields its first success, but many wrinkles remain

Editorial, The Hindu

Good news has finally started to roll out of the refurbished bankruptcy courts. Tata Steel acquired 73% stake in the bankrupt firm Bhushan Steel for about ₹35,000 crore last week, making it the first major resolution of a bankruptcy case under the new Insolvency and Bankruptcy Code (IBC). Bhushan Steel was one among the 12 major accounts referred to the National Company Law Tribunal at the behest of the Reserve Bank of India last year to ease the burden of bad loans on banks. The proceeds from the acquisition will go towards settling almost two-thirds of the total outstanding liabilities of over ₹56,000 crore that Bhushan Steel owes banks. While it may be unwise to read too much into a single case, the Bhushan Steel resolution is nevertheless an encouraging sign for banks because they typically manage to recover only about 25% of their money from defaulters. In fact, between April 2014 and September 2017, the bad loan recovery rate of public sector banks was as low as 11%, with non-performing assets worth ₹2.41 lakh crore written off from their books. The Finance Ministry now expects banks to recover more than ₹1 lakh crore from the resolution of the other cases referred by the RBI to the NCLT. If the banks do indeed recover funds of this scale, it would considerably reduce the burden on taxpayers, who would otherwise have to foot the bill for any recapitalisation of banks. Even more important, speedy resolution would free valuable assets to be used for wealth-creation.

The resolution of one high-profile case, however, should not deflect attention from the many challenges still plaguing the bankruptcy resolution process. The IBC, as the government itself has admitted, remains a work in progress. This is a welcome piece of legislation to the extent that it subsumes a plethora of laws that confused creditors; instead it now offers a more streamlined way to deal with troubled assets. But issues such as the proposed eligibility criteria for bidders have left it bogged down and suppressed its capacity to help out creditors efficiently. Also, the strict time limit for the resolution process as mandated by the IBC is an area that has drawn much attention, and it merits further review in order to balance the twin objectives of speedy resolution and maximising recovery for the lenders. To its credit, the government has been willing to hear out suggestions. It would do well to implement the recommendations of the Insolvency Law Committee which, among other things, has vouched for relaxed bidder eligibility criteria. Going forward, amendments to the bankruptcy code should primarily be driven by the goal of maximising the sale price of stressed assets. This requires a robust market for stressed assets that is free from all kinds of entry barriers.

Bankruptcy code must include buyers

The Insolvency and Bankruptcy Code, 2016 is open for comments till December; the amendments will get enforced from 1 April 2019. Ashwini Kumar Sharma asked experts on what should be changed

On 1 May 2018, Insolvency and bankruptcy board of India stated that they seek comments from public on the rules and regulations notified under the Insolvency and Bankruptcy Code, 2016

May 21 2018 | Ashwini Kumar Sharma

live mint

On 1 May 2018, Insolvency and bankruptcy board of India stated that they seek comments from public on the rules and regulations notified under the Insolvency and Bankruptcy Code, 2016. The aim is to take views of various stakeholders and make the necessary changes in the Act. The window to share the views will remain open from 30 April to 31 December 2018.

Based on the inputs received, changes will be made in the Act, which will get implemented from 1 April 2019. We asked experts what needs to be amended in the Act.

Punit Dutt Tyagi, Executive Partner, Lakshmikumaran & Sridharan Attorneys

At the time of its original enactment, the Insolvency and Bankruptcy Code (IBC) was plagued by several issues. Since the time the Act came into force, the legislature has taken note of some of these issues and amended the statute to address the practical difficulties faced in the course of its implementation. Despite this corrective legislative action, there remain certain areas that would require urgent attention.

The ambit of who constituted financial and operational creditors under the IBC was originally considered to be all-encompassing at the time of its enactment. But now it is becoming increasingly clear that there are several categories of creditors who cannot be classified in the straight-jacket formula envisaged under the original IBC. Such creditors include holders of deposits, home-buyers and customers who had paid advances for goods and services, among others. On account of there being no clear and obvious answer, Courts of law have been grappling with the classification of such creditors for a considerable period of time. This problem is easily remediable, should the legislature introduce the necessary amendments in this regard.

Another area of concern is the scope and applicability of the moratorium envisaged under the IBC. There is still a significant degree of uncertainty regarding the implication of such a moratorium on Letters of Credit and other such commonly accepted modes of commercial security. The increased uncertainty in terms of honouring of secure modes of payments, especially in the context of international trade, is a major cause for concern. With the Courts/Tribunals across India expressing contradictory opinions on this issue, some of the issues are now pending final adjudication before the Hon'ble Supreme Court. Personal guarantees are another area of concern.

Monish Panda, Founder, Monish Panda & Associates

Suggestion: Qualification for interim resolution professional (IRP) needs to be re-casted to include professionals having relevant previous management experience in running a company. In fact it would be prudent to appoint a team of professionals with relevant management experience in diverse verticals.

Rationale: Such professionals are better equipped in managing the Corporate Debtor as a going concern and undertake other steps required for reviving the Corporate Debtor during the Corporate Insolvency Resolution Process (CIRP), rather than appointing an IRP who may or may not have any prior management experience.

Suggestion: Customers who have made deposits with the corporate debtor should be treated as financial creditors.

Rationale: Such deposits are financial debt, so such customers or depositors should be treated as financial creditors. The issue that will arise is appointment of a representative to committee of creditors (CoC). Considering the peculiarity of this situation and as number of such creditors will be large, it will be practical and prudent that the IBBI should be given the responsibility to appoint such Representative on behalf of the customers/depositors for representing their interest in the CoC.

Suggestion: National Company Law Tribunal (NCLT) should have the discretion to extend the CIRP period beyond 270 days if there are one or more Resolution Applicants who have bid higher than the liquidation value and for some reason the CoC could not complete the process.

Rationale: There could be various reasons for the CoC not finalising the Resolution Plan within 270 days. However, if there is a Resolution Applicant who wants to take over the Corporate Debtor as a going concern, then NCLT should be given discretion to extend the CIRP period rather than directing for liquidation.

Gurpreet Chhatwal, president, CRISIL Ratings

To extend the code to other sectors, and to mid- and small-sized NPAs, five changes or tweaks are necessary:

1. Differentiated rights for priority funding

Clearer rights to priority funding can help contain NPAs. First, enabling access to timely funding would keep an asset from coming under IBC. Second, if an asset does come under the National Company Law Tribunal (NCLT), access to priority funding at reasonable rates can preserve asset values, attract more bidders and help in faster resolution.

2. Rethink on Section 29A

There is a need to differentiate between genuine hardship or distress, and mismanagement. Independent firms such as rating agencies can play a role in developing frameworks to distinguish between the two.

Further, bidding norms for small and medium enterprises can be relaxed as a large number of cases are going towards liquidation for want of bidders.

Differentiate financial investors from existing promoters, to ensure that they don't become ineligible in case of unsuccessful turnarounds.

3. Relax minimum consent required

Reduce this threshold from 75% of creditors to 51% for taking ahead proposals when voting at the committee of creditors to streamline the process and reduce inter-creditor conflicts. The Reserve Bank of India had allowed this for the erstwhile Joint Lenders' Forum.

4. Team of resolution professionals

Resolution processes for large and complex assets can benefit if there is a team of resolution professionals with the requisite financial, technical and asset-sale experience, instead of just one such professional.

5. Strengthening the NCLT ecosystem

There is a need to increase NCLT benches, and supporting infrastructure such as insolvency professionals, and information utilities. IBC is new and incorporating learnings from cases at the Supreme/High Courts on an ongoing basis will further strengthen it. Further, preparation of detailed information memorandum with audio-visual features will get more bidders and result in better price discovery.

Harsh Pathak, Real Estate Law Counsel, LexMine

IBC is a major legislation in the recent past. It aims to consolidate the insolvency and bankruptcy proceedings in an effective and efficacious manner. The IBC aims to first restructure the debt of a company, failing which, it goes into liquidation. The Code has made provisions for the appointment of insolvency resolution professional after the company fails to pay the debt of its creditors. This is the basic scheme under the act . The moot question which remains is that is the act provides safeguards and benefits to all creditors. Here, as per the code IBC in appropriate proceedings gives representation to all types of creditors in the resolution proceedings of a company, it doesn’t recognise homebuyers’ as creditors nor has it any provision to represent them in resolution proceedings initiated under this act.

The apex court order in the Jaypee insolvency case is a clear indication that the Insolvency and Bankruptcy Code (IBC) is silent on this issue and if give adequate representation to homebuyers’ interest in such proceedings , it will be a great relief to so many home buyers those who are remedy less at the moment under proceedings initiated against the defaulters in IBS Code.

This non inclusion of homebuyers in cases of a real estate company, the insolvency code seems to obstruct the interests and remedy available to the homebuyers. The Home buyers non representation in the Insolvency Resolution Process (IRP) and moratorium under Section 14 of the Code on institution of fresh suits, pending suits, recoveries, etc., left homebuyers neither properly represented in the IRP nor can they go for any other legal remedy. Therefore , inclusion of homebuyers in creditors and right to participate in proceedings initiated under IBC code will be a big relief to a large section of the society who are homebuyers and failed to get the property and also lost hard earned money paid to buy home. Government is conscious of this fact and their initiative to safeguards the homebuyers interest through adequate amendment in the IBC will do complete justice for all concern.

Will govt NPS hike equity investment from 15% to 50%?

In case of government NPS (Centre and state), employees can't choose the investment limits or the fund manager

As of now, private NPS allows up to 50% investment in equities directly and 75% through life-cycle based strategy; the equity limit will move up to 75% even under the direct or active choice, as per a recent board decision

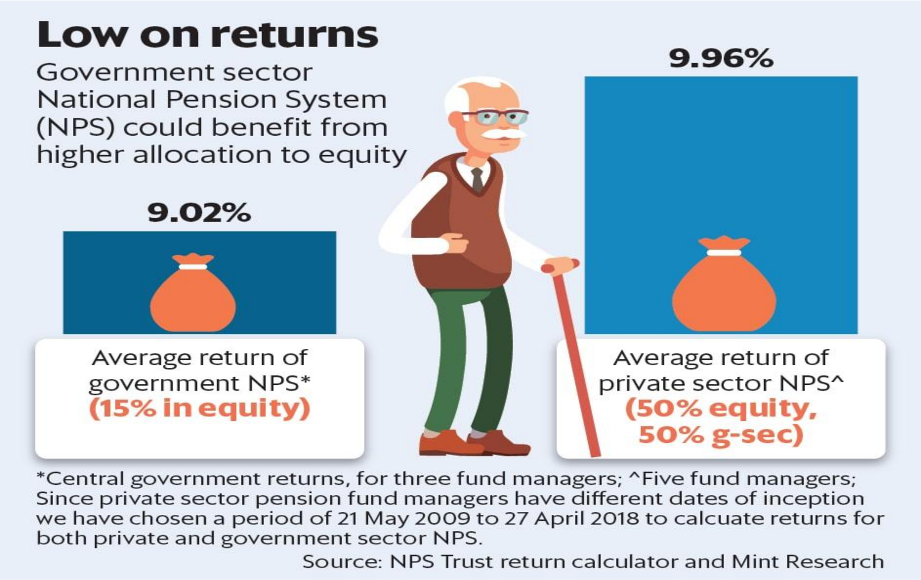
May 21 2018 | Deepti Bhaskaran

While the private sector National Pension System (NPS) is set to increase the equity investment limit in the direct or active choice option to 75%, according to a recent board meeting, the equity limit for government NPS is still at 15%.

But the Pension Fund Regulatory and Development Authority (PFRDA) is hopeful that the government will allow a hike in equity investment limit for government NPS as well, from 15% to 50%, said chairman Hemant Contractor in an interview with Bloomberg last month.

As of now, private NPS allows up to 50% investment in equities directly and 75% through life-cycle based strategy; the equity limit will move up to 75% even under the direct or active choice, as per a recent board decision.

While central government employees (except for armed forces) who joined services from 2004 were moved to NPS first, it was only in 2009 that NPS opened doors for the private sector. State governments implemented NPS after that.



Government NPS

In case of government NPS (Centre and state), employees can't choose the investment limits or the fund manager. The money is invested in a specific proportion across three state-run managers—SBI Pension Funds Pvt. Ltd, UTI Retirement Solutions Ltd and LIC Pension Fund Ltd—and the caps in each asset class are defined.

Each pension fund manager can invest up to 50% in government securities (G-secs), up to 45% in debt instruments, up to 5% in short-term debt, up to 15% in equities and up to 5% in structured securities and other miscellaneous investments. The current fund management charge (FMC) of government NPS is 0.0102%.

Private NPS

Private sector NPS is voluntary and the choice of fund managers and investment fund rests with the subscriber.

You can choose among eight fund managers and four investment schemes. Scheme G invests in G-secs, scheme C in fixed income instruments other than G-secs, scheme E in equities and scheme A in alternative investment funds. You can put your money in any of the four schemes in the proportion you like, but scheme E currently has a cap of 50% currently and scheme A has a cap of 5%.

You can also opt for a life-cycle based allocation where you can start with a 75% exposure to equities. The current FMC for private NPS is 0.01%.

Going forward

The G.N. Bajpai committee report that reviewed investment guidelines of government and private NPS, recommended harmonizing investment guidelines, and a step in that direction is to increase equity allocation to 50%.

For instance, as per the recent updated data, the government NPS returned an average of 9.02% (average from three fund managers) and for the same time period, assuming 50% was invested in equities and 50% in G-secs, private NPS would have returned close to 9.96% (average return from the five fund managers that were operational during the time period chosen see graphic for details).

"If we compare someone's return who has chosen 50% equity to that of government employees (where equity is 15%), the difference in return is about 100 basis points," said Kumar Sharadindu, managing director and chief executive officer, SBI Pension Funds.

The Bajpai report also proposes allowing private fund managers to manage government NPS and letting employees choose their fund manager and asset allocation. "Giving an option to government employees to choose pension funds and asset allocation has been under consideration for some time. An immediate outcome is not expected," said Sharadindu. The changes will increase transparency and flexibility for government employees.

Rural wage growth lowest in 3 years

There isn't any big base effect at work here, so the fall in wage growth is the result either of less demand for rural labour or more supply. Either way, it points to rural distress

Growth in rural wages for men, taken as the simple average wage rate for all rural occupations, fell to 3.09% in January this year, from 6.57% in the same month a year ago

May 21 2018 | Manas Chakravarty

live mint

If economic growth is picking up, as all experts agree, why is growth in rural wages faltering? The accompanying chart shows that growth in rural wages for men, taken as the simple average wage rate for all rural occupations, fell to 3.09% in January this year, from 6.57% in the same month a year ago. It's the lowest year-on-year growth since November 2014. In real terms, adjusted for inflation, rural wage growth for men is negative.

There isn't any big base effect at work here, so the fall in wage growth is the result either of less demand for rural labour or more supply. Either way, it points to rural distress.

Year-on-year growth in wages for male rural workers engaged in agricultural activities was a mere 1.67% in January. For these workers, average wage rates in January were lower than those last September.

For non-agricultural activities, the y-o-y wage growth was slightly better, at 3.61% in January.

There has been much talk about the government's focus on building rural roads. If construction has indeed picked up in rural India, surely the wages of construction workers should be rising, too? Why, then, is the growth in wages of male rural construction workers falling? The data show that wage growth for male construction workers in rural areas was 3.57% in January and it has declined steadily every month from a high of 6.33% last July.

At first glance, there seems to be a silver lining, as the story appears to be markedly different for rural women workers.

The average growth rate for rural women's wages was up a decent 7.79% in January. A closer look, however, shows the jump was due to a low base—the growth rate in January 2017 was a mere 1.38%. For women construction workers in rural India, the growth rate in wages for January 2018 was 5.08%. This growth, too, was on a very low base.

In short, the data indicates that all is not well in rural India.

How can one reconcile this data with companies reporting robust rural consumption? One explanation is that the demand is coming from the better-off sections of the rural population. The poorer part of our rural population, after all, functions more as a reserve army of underemployed labour that keeps wage rates down, rather than as a source of effective demand.

From a macroeconomic perspective, the saving grace is that the absence of rural wage pressures should hold back inflation.

Non-bailable warrants against Nirav Modi

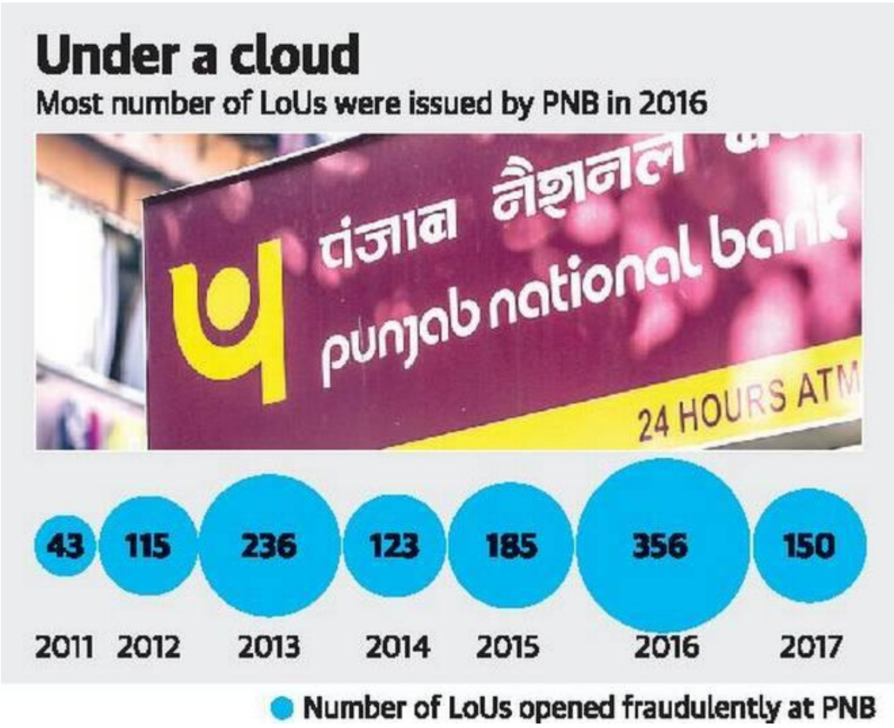
Sonam Saigal **MUMBAI, MAY 21, 2018**

THE HINDU

CBI court takes cognisance of charge sheet filed by the agency in PNB case

The CBI court on Monday took cognisance of the charge sheet filed by the agency in the Punjab National Bank scam and issued non-bailable warrants against Nirav Modi, his brother Neeshal Modi, and Subhash Parab, an executive in Nirav Modi's group of companies.

The chargesheet names three of Nirav's firms — Diamond R US, Stellar Diamond, Solar Exports — and senior PNB staffers K.V. Brahmaji Rao and Sanjiv Sharan (both : executive directors), Nehal Ahad, general manager, and Usha Ananthasubramanian, who was then CEO and MD (she is now in a similar position at Allahabad Bank).



The court issued summons to all the arrested accused in the case and posted the matter to June 1.

The charge sheet says the PNB employees abused their positions as public servants and 'fraudulently and dishonestly' issued a large number of letter of understanding (LOUs) without any sanctioned limit and without obtaining 100% cash margins . This was in connivance with Nirav Modi, Hemant Bhatt (authorised signatory of many of Nirav's firms), and Vipul Ambani, a president of Firestar International. The CBI says that from February 2, 2017, to March 23, 2017, Gokulnath Shetty, a now-retired deputy manager of PNB (currently in judicial custody) issued 150 LOUs with due dates from January 25, 2018, to and April 20, 2018, on behalf of the three firms, based on which the firms obtained Buyers Credits from overseas branches of Allahabad Bank, Axis Bank and Bank of India.

The Reserve Bank of India (RBI) had issued a circular on August 3, 2016, about cyber-security controls, advising banks to get their SWIFT infrastructure audited and ensure strict vigilance on SWIFT transactions.

These warnings were brought to the notice of Ms. Ananthsubramanian, Mr. Rao, Mr. Sharan and Mr. Ahad.

PNB scam: ED attaches Nirav Modi's assets worth Rs.171-crore

SPECIAL CORRESPONDENT
MUMBAI, MAY 21, 2018
THE HINDU

The Enforcement Directorate (ED) on Monday attached assets worth Rs.171 crore in the Punjab National Bank case against the fugitive diamond merchant, Nirav Modi. The current market value of properties seized or attached so far in the scam was said to be more than Rs.7,800 crore.

According to the agency, the new attachment order included four commercial properties worth Rs.72.87 crore in Mumbai and Surat, 106 bank accounts with a balance of Rs.55.12 crore, 15 Demat accounts involving Rs.35.86 crore and 11 cars.

The Directorate had earlier provisionally attached 21 immovable properties belonging to Mr. Modi and his companies in February. "The present market value of these properties is Rs.523.72 crore. They include six residential flats and 10 office premises in Mumbai, two flats in Pune, one farmhouse in Alibaug, a solar-power plant and 135 acres of Land in Ahmednagar's Karjat," said the agency.

The ED had registered the money laundering case against Mr. Nirav Modi and others on February 15.

It was alleged that Mr. Nirav Modi and others cheated the Punjab National Bank in connivance with certain bank officials by fraudulently getting the Letters Of Undertaking (LOUs) issued in favour of their three firms without putting any security and without following the prescribed procedure.

On the similar modus operandi, the CBI registered another FIR against Mr. Nirav Modi's Mehul Choksi and others. A few days ago, the ED seized jewellery items worth Rs.85 crore of Mr. Choksi's Gitanjali group under the Prevention of Money Laundering Act.

Moody's downgrades PNB

SPECIAL CORRESPONDENT
MUMBAI , MAY 21, 2018

THE HINDU

Provision for $2.2-bn fraud to offset govt. capital infusion

Moody's Investors Service has downgraded Punjab National Bank (PNB) from ba3 to ba1 after the completion of a rating review started after the bank was hit by letters of undertaking (LoU) scam.

The rating agency lowered the local and foreign currency deposit rating of PNB to Ba1/NP from Baa3/P-3 and baseline credit assessment (BCA) and Adjusted BCA to b1 from ba3.

"These actions complete Moody's review of the bank's ratings initiated on 20 February, 2018, following the bank's announcement of the discovery of some fraudulent and unauthorised transactions amounting to Rs.144 billion ($2.2 billion) in February and March 2018," Moody's said.

The downgrade reflects the negative impact of fraud on the bank's standalone profile, particularly its capital position.

It also reflects the weak internal controls and processes of the bank, given that the fraudulent transactions were undetected for a number of years, it said.

PNB reported Rs.13,400-crore loss in the January-March period — the highest quarterly loss by any Indian bank ever.

Weak earning profile

"The bank's weak earnings profile — as seen by its large stock of non-performing loans (NPLs) and the associated credit costs — will limit its ability to absorb the impact of the fraudulent transactions over the next 12-18 months," Moody's said adding the provisions for the fraud will offset the benefit the bank would get from the government's capital infusion. Moody's expects PNB to receive capital support from the government and that it will be able sell some non-core assets to raise funds.

Moody's said PNB will require external capital of about Rs.12-Rs.13,000 crore.

NCLAT refuses to stay Bhushan Steel sale

PTI
NEW DELHI, MAY 21, 2018
THE HINDU

Issues notices to Tata Steel, others

The National Company Law Appellate Tribunal (NCLAT) on Monday declined to stay Tata Steel's acquisition of debt-laden Bhushan Steel under the corporate insolvency resolution process.

An NCLAT Bench headed by Chairman Justice S.J. Mukhopadhaya also issued notices to Tata Steel, the resolution professional and Committee of Creditors (CoC) of Bhushan Steel on a petition filed by its promoter Neeraj Singal challenging the sale. "Let us decide the law but not stall the process," the Bench said, adding that the resolution process would be subject to the final outcome of the case.

The Bench directed the matter to be listed on May 30 and asked the parties to file their replies in a week.

Meanwhile, engineering and construction major L&T, which is an operational creditor of Bhushan Steel, has also approached the appellate tribunal against NCLT's order approving the sale of the debt-ridden firm to Tata Steel.

In his petition, Mr. Singal has challenged the eligibility of Tata Steel as resolution applicant under Section 29 A of the IBC.

He further contended that no notice was given to him when CoC was approving the resolution plan. Shares of Bhushan Steel on Monday rose 4.8% to end Rs.29 — its upper circuit limit — on the BSE.

Spike in crude prices can widen CAD to 2.5% of GDP: SBI report

OUR BUREAU | NEW DELHI, MAY 21

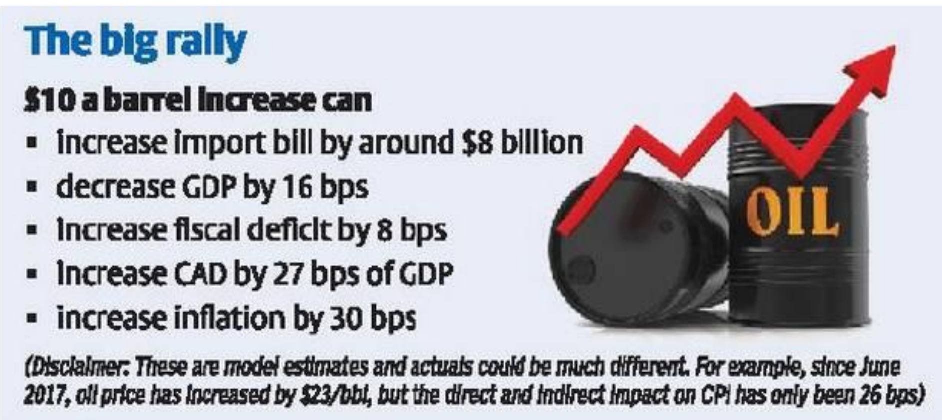
THE HINDU BusinessLine

RBI not likely to hike rate in June meeting

Rising oil prices may not prompt the RBI Governor-headed Monetary Policy Committee (MPC) to go for a rate hike in its June meeting but it can widen the Current Account Deficit (CAD) to 2.5 per cent of the Gross Domestic Product (GDP), a SBI report said on Monday.

The Indian basket of crude oil touched $77.43/barrel (one barrel equals to 159 litres) and is expected to touch $80 soon. This resulted in pushing retail selling price of petrol and diesel to an all-time high of Rs.76.57 and Rs.67.82 respectively in Delhi on May 21.

Rising fuel prices will also push up inflation which, in turn, can impact policy interest rate. However, the report has a different view at least for the time being. "We refute the current argument of impending rate hike by the RBI on the face of surge in oil prices. We find that oil price as such has not led to countries switching to rate hikes. It is more related to the respective domestic economic developments," the report authored by Soumya Kanti Ghosh, Group Chief Economic Advisor with the State Bank of India, said.



Source : SBI Ecowrap

The MPC is scheduled to meet on June 4-6. Although, many economists and research agencies do not feel that there will be rate hike, some economists and brokerage houses fear that rising oil prices might fuel inflationary expectations prompting the committee to go for rate hike at least by 25 bps.

Current account deficit

"Crude oil prices are expected to impact imports. This will stretch the FY19 current account to 2.5 per cent of GDP. The exports need further push so that the external metrics remain stable," the report said.

CAD is the difference between inflow and outflow of foreign exchange and it is estimated at 1.9 per cent for 2017-18. It said the crude oil price rise by $17 in the span of a year has been reflected in the imports showing growth of 19.59 per cent.

"Crude oil prices are expected to rise further this year and we expect imports to grow by at least 14 per cent. This will stretch the FY19 Current Account Deficit."

The report said while mentioning that the worsening of the trade deficit can impact the rupee further. The FII inflows have also not been benevolent this year.

Between April and May outflows to the tune of $5.0 billion have happened. The twin impact of FII outflows and worsening trade balance can hit the rupee further.

'Cash is not going to go away; its use has risen post demonetisation'

But the payment landscape is expanding, says chief of payment solutions firm AGS

K RAM KUMAR |MUMBAI, MAY 21

THE HINDU BusinessLine

Payment solutions provider AGS Transact Technologies plans to deploy one lakh point-of-sale (POS) terminals in FY19 even as it wants the interchange fee issue resolved before it restarts ATM deployments. The company's CMD Ravi B Goyal, a hardware engineer-turned-entrepreneur, began with marketing computer-aided textile designing software and diversified into dispensing systems for paints, inks, and pigments, among others, in the mid-1990s. He subsequently launched AGS in 2002.

In an interview with ***BusinessLine***, Goyal said that with the digital banking landscape expanding fast, his company is constantly upgrading its infrastructure to facilitate digital payments. Excerpts:

How has the digital banking landscape evolved post demonetisation?

Cash in circulation now is more than the pre-demonetisation level. The number of transactions, the volume getting dispensed through ATMs is much more than the pre-demonetisation level. Cash is not something which is going to go away. However, the whole payment landscape is also expanding. And in that there is going to be cash, card, wallet, unified payments interface (UPI), immediate payment service (IMPS), internet and mobile banking. All these will co-exist. As a technology provider, we want to basically make it convenient for the consumer as well as the merchant and give them the freedom to choose how they want to transact.

Why have ATM deployments slowed down?

There are two kinds of ATMs — onsite and offsite. The success of an offsite ATM completely depends on its location. We have seen in the past seven-eight years that some of them don't give you transactions (volumes). And, if an ATM is not giving the required number of transactions in four-six months, you have to relocate it.

The number of transactions — and the volume of cash dispensed — is far more than during pre-demonetisation. So, there is nothing wrong in the ATM channel. We manage about 40,000 ATMs and we have been doing 5-10 per cent relocation every year, all the time.

After demonetisation, the cash started coming in only in June-July 2017. So, the banks did not really budget any ATM deployments. But this year, ATM deployments will pick up. Those receiving direct benefit transfer in their accounts will need access to ATMs to withdraw cash. A cash withdrawal by a customer at the branch costs a bank Rs.60. At an ATM, it will cost the bank Rs.15 (interchange fee) at most. So, for any bank, ATM is the cheapest mode of cash dispensation.

Why have white label ATM (WLA) operators frozen ATM deployments?

Honestly, we still believe that WLAs have a great future. Globally, banks deploy ATMs onsite. All offsite are deployed by a third-party called independent service organisation (ISO).

The business model overseas is that customers are charged a convenience fee by ISOs. In India, the regulator says that you (WLA operator) cannot charge a convenience fee but you will get an interchange fee.

For banks, when it comes to (allocating) cash, the first priority is their branches, followed by their own ATMs and WLAs. WLAOs pick up whatever cash is left. The interchange fee and erratic supply of cash cause a problem. Otherwise, this model is going to be 'the model'. Right now, it is not viable for us. But we are working very closely with the National Payments Corporation of India and the Confederation of ATM Industry and also meeting with the regulator. I am sure we will find some solution. Our request has been to restore the interchange fee to Rs.18 against the current Rs.15.

What are your investment plans?

Investments are on going in the cash-in-transit business, ATMs, recyclers, field-level maintenance and monitoring activity. We have built the right infrastructure to cater to banks. We have made Rs.1,000 crore-plus investment so far…we have plans to tap the capital market (through an)... IPO.

Two private equity players, TPG (invested in AGS in 2011) and Actis (2012), together hold a 42 per cent stake in our company. They have invested aroundRs.400 crore. The process of buying them out is almost at the closing stage. Once the process is complete, I will be owning about 96-97 per cent.

What innovations are you working on?

We are enabling merchants to accept all kinds of digital payments in POS machines — by card, wallet, UPI, QR (quick response) code, Aadhaar Pay. We have 60,000 POS terminals. We will deploy a lakh more this year as we are making inroads into tier-II and tier-III cities.

'Bhushan Steel's buyout to reduce PSB NPAs by Rs 35,000 cr'

PTI|NEW DELHI, MAY 21

THE HINDU BusinessLine

The acquisition of debt-laden Bhushan Steel, under the Insolvency and Bankruptcy Code (IBC) framework, will reduce bad loans of PSBs by Rs 35,000 crore, Financial Services Secretary Rajiv Kumar today said.

"IBC transforming credit culture in New India. About Rs 35,000 crore reduction of NPAs of PSBs in Bhushan Steel case. Reduction of NPAs in individual PSBs range from about Rs 500 crore to over Rs 10,000 crore, he tweeted.

Last week, Tata Steel, through its subsidiary, completed the acquisition of controlling stake of 72.65 per cent in Bhushan Steel for around Rs 36,400 crore after emerging as the winning bidder in an insolvency auction. Kumar said following the Bhusan Steel buyout, public sector banks (PSBs) will write back Rs 7,500 crore of loans which were earlier classified as NPAs.

"Future upside through over 6 crore equity shares acquired by PSBs. Decisive shift towards clean credit culture," Kumar tweeted.

Last week, Finance Minister Piyush Goyal had tweeted that the acquisition was a "historic breakthrough in resolving legacy issues of banks".

Bhushan Steel was among the 12 stressed assets the Reserve Bank of India had referred to the National Company Law Tribunal (NCLT) proceedings last year.

Finmin not seeking relaxation of RBI's PCA framework, PSBs told to focus on core biz

PTI | NEW DELHI, MAY 21

THE HINDU BusinessLine

The finance ministry is not seeking any relaxation from RBI in its prompt corrective action (PCA) framework and has instead asked banks to adopt differentiated business strategy, exit non-core businesses and focus on core competencies, an official said today.

Finance Minister Piyush Goyal last week met heads of 11 public sector banks (PSBs) which have been identified under the PCA to check their deteriorating financial health and promised all possible help to strengthen them.

Banks facing PCA are reeling under mounting non-performing assets (NPAs) or bad loans. As of December end, Indian banks had NPAs of more than Rs.8 lakh crore of which the major chunk was from PSBs.

Besides, some lenders have been hit by frauds. PNB, for instance, has reported fraud of USD 2 billion or over Rs.13,400 crore carried out allegedly by diamond jeweller Nirav Modi and his associate Mehul Choksi.

Under the PCA, banks face restrictions on distributing dividends and remitting profits, while the owner may be asked to infuse capital into the lender. Besides, the lenders are stopped from expanding their branch networks and need to maintain higher provisions. Management compensation and directors' fees are also capped.

'Not sought relaxation'

"We recently held a meeting with the 11 public sector banks under PCA but we have not sought any relaxation in the framework from the regulator," a senior finance ministry official said. The ministry has asked the banks under PCA to assess their capital needs, adopt differentiated banking and focus on core assets while exiting from the non-core ones, the official added.

Asked if these banks will be given more capital to help them, the official said capital infusion is linked to performance.

The 11 banks under PCA are Dena Bank, Allahabad Bank, United Bank of India, Corporation Bank, IDBI Bank, UCO Bank, Bank of India, Central Bank of India, Indian Overseas Bank, Oriental Bank of Commerce and Bank of Maharashtra.

In October last year the government had announced plans of massive capital infusion of Rs.2.11 lakh crore spread over two financial years — 2017-18 and 2018-19.

Just a third of credit-worthy consumers tapped by banks: Report

PTI | MUMBAI, MAY 21 THE HINDU BusinessLine

Even after the increased focus on retail lending for a decade, banks and other lending institutions have been able to tap only into a third of the estimated 220 million credit-eligible consumers, a report said. This leaves financiers with 150 million consumers who are eligible for credit but are untapped, credit information company Transunion Cibil said in its report today.

Of the eligible population of 220 million, only a third, or 72 million, are "credit active" having a live account with a bank or lending body, it said. The missing 150 million includes those who qualify the lending criteria from the age and income perspective and also those who may have availed some credit facility in the past but are currently inactive or dormant.

This segment promises retail lending opportunities for the lenders through products such as credit cards, personal loans and consumer durable loans, the report said, adding that it will also serve as a "major boost" to the economy.

"This untapped market presents an opportunity for sustained, prudent growth for lenders over the next five years and beyond. Lenders need to find ways to reach this untapped market, which likely has credit needs that are not being met currently," said Yogendra Singh, vice-president - research and consulting, Cibil.

He added that the banks have been tapping the retail segment for over a decade now, leading many observers to question if retail lending is reaching a "saturation point". It can be noted that banking regulator Reserve Bank of India has been flagging concerns on retail loans being the panacea for banks, which are saddled with reverses on the corporate lending side.

"This is not a risk-free segment and banks should not see it as the grand panacea for their problem-riddled corporate loan book. There are risks here too that should be properly assessed, priced and mitigated," Deputy Governor N. S. Vishwanathan had said in a recent speech.

The Cibil report considered people in the age group of 20-69 years and with income of over Rs 2.5 lakh a year to come to the estimate of 220 million credit-eligible consumers. The report also forecasts that the addressable market will increase by 14-16 million consumers per year, reaching an estimated 295 million by 2022.

"As more consumers reach adult age and have disposable incomes, they will increasingly seek credit to help finance purchases of housing, vehicles, and household goods. As well, in an increasingly digital marketplace, they will want credit cards to help facilitate online transactions," Singh said.

The report also said the total household debt in the country can nearly double to Rs 78-94 lakh crore by 2022, from Rs 37 lakh crore last year if the country follows the growth trajectories of other countries. "There is a tremendous growth opportunity for retail lenders who are seeking to expand their customer base and grow their business," Singh said.

AIBEA THIS DAY MAY 22	
1964	All India demands day on Nationalisation of Banks.
1991	Unforgettable leader of working class in India Com. S A Dange passes away; a great friend, philosopher and well wisher of AIBEA.

AIBEA THIS DAY MAY 23	
1924	Com. D P Mithra, Founder General Secretary, APBEF (date of birth)