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Failure of governance

T.T. Ram Mohan JUNE 06, 2018 BUSINESSLINE

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Why we need to go through the timeline of the uncalled-for drama at ICICI Bank

Finally, finally, the board of ICICI Bank has ordered a probe into allegations levelled against its CEO, Chanda Kochhar. Does this call for a celebration? No, it doesn't. The probe comes rather late in the day. And the board is having to refer the matter to an outsider only because of its own inadequate response to the initial set of charges made nearly two years ago. These constitute lapses in governance at a bank that has been characterised as "systemically important" by the regulator.

On May 30, the board of directors of ICICI Bank announced that it had ordered an inquiry by an outsider into allegations made by a whistle-blower. These allegations are not to be confused with the ones made by an investor, Arvind Gupta, in 2016. Mr. Gupta had then written to the Prime Minister, with copies to the Governor of the Reserve Bank of India and the Chairperson of the Securities and Exchange Board of India (SEBI), among others.

The publication of Mr. Gupta's allegations in a newspaper in March this year raised a storm. On March 28, the Chairman of ICICI Bank's Board, M.K. Sharma, issued a statement expressing the board's full confidence in Ms. Kochhar. In April, media reports said that Mr. Sharma had carried out an internal inquiry in 2016 itself and had found no evidence of wrongdoing on Ms. Kochhar's part. End of story, or so the ICICI Bank board would have liked.

However, the controversy would not die down. Investors and media analysts have been relentlessly pressing the board for a better response. Following charges made by a whistle-blower, the board has now authorised the chairman of the Audit Committee to select an appropriate person to head an independent probe.

Sharp questions

Three questions arise. First, after having stood steadfastly by its CEO for over two months, why has the board opted for a probe now? Second, is a probe by an outsider required at all? Third, should Ms. Kochhar continue in office during the period of the inquiry?

The decision to go in for a probe is clearly prompted by widespread dissatisfaction with the clean chit given by the Chairman last March. It is also possible that the board has been rattled by show-cause notices issued by SEBI on May 24. According to media reports, the notices relate to alleged violation of disclosure requirements on the part of both Ms. Kochhar and ICICI Bank. If the violations are established, the bank could be subject to monetary penalties and the associated reputational damage.

However, the key question, as one veteran banker pointed out to me, is whether an inquiry conducted by an outsider is at all necessary in such a case. Let us recount the salient facts in brief. In April 2012, ICICI Bank made a loan of Rs. 3,250 crore to the Videocon group. Ms. Kochhar was the bank's CEO at the time. Mr. Gupta's letter to the PM had said that Ms. Kochhar's husband had had a business partnership with the Videocon group prior to the sanction of the ICICI loan. There would thus be a clear conflict of interest in Ms. Kochhar being party to the sanction of a loan to Videocon.

The issue at the heart of the controversy is simple enough: did Ms. Kochhar disclose the conflict of interest to the board and recuse herself from all matters concerning Videocon? If she did not do so, it is sufficient ground for the board to ask Ms. Kochhar to step down as CEO.

A lapse

It is not necessary to establish a quid pro quo in the relationship for the board to decide whether Ms. Kochhar should step down. That is a separate matter to be pursued by the law enforcement authorities. Non-disclosure of conflict of interest and non-recusal are grave enough lapses. The line that various people, including government officials, have been putting out — "let us await the outcome of investigations" — is sheer evasion.

No deep probe, no forensic analysis, no great legal expertise is required to answer the elementary question posed above. The board of directors is perfectly competent to answer it by having the relevant documents placed before it. That is what the board should have done in March when the controversy erupted. The drama that has unfolded since is uncalled for and could have been avoided if only the board had done the right thing earlier.

Some of the other arguments made in defence of the CEO amount to a red herring drawn by interested parties. For instance, Mr. Sharma has defended Ms. Kochhar on the ground that ICICI Bank had assumed a share of only 10% of the total loan given by a consortium of banks and the loan itself had been made in accordance with the bank's norms. This does not wash. It is not that a conflict of interest arises only when a loan is made in violation of norms; the conflict does not go away even when the loan decision is in conformity with norms.

The conflict of interest does not end with the sanction of a loan. It extends to post-loan monitoring and the readiness of the lender to exit a relationship where problems are brewing. It applies also to recognition of a loan as a non-performing asset and steps taken to effect recovery. It was incumbent on Ms. Kochhar to have distanced herself from all matters related to Videocon.

When a fresh set of allegations surfaced this month, the board must have been in a bind. Since it had solidly backed its CEO thus far, any probe it chose to conduct by itself would have lacked credibility. Perhaps, that is why the board has opted to entrust the probe to an outsider. It may well be that the whistle-blower has raised issues other than the loan to Videocon. However, it’s hard to believe that any issue of impropriety is beyond the competence of a board. The board can always seek the assistance of outside experts where required. The resort to an outsider is a situation of the board’s own making.

Now that the board has decided to have a comprehensive probe, one that could stretch over several weeks or months, Ms. Kochhar’s status during the period is an important issue. The board has denied having asked Ms. Kochhar to go on leave. It has said that her current leave had been planned in the normal course.

Tenuous arrangement

Does this mean that she will continue to helm the company on her return from leave? If yes, it is a highly unsatisfactory state of affairs. Just think of the plight of those reporting to Ms. Kochhar and the morale in the organisation in general when its CEO is the subject of an extended probe. The correct and proper course would be to ask Ms. Kochhar to step down as CEO until the probe is completed.

The board has also denied that it has set up a search committee to find a successor to Ms. Kochhar. It is free not to set up one. But the board is certainly bound by regulations to have a succession plan in place. The board must ensure that it has a choice of candidates it can turn to in the event that Ms. Kochhar is required to step down.

It is not merely the Chairman and independent directors of ICICI Bank who have been found wanting in the controversy. The nominee of the government and the LIC nominee on the board too have been coy about getting a straight answer to the question of conflict of interest involved in this case. They have chosen to stay away from meetings where they had a fiduciary obligation to attend and pose the hard questions. Such behaviour is strange, to say the least, and it completes the story of a breakdown in governance at the bank. As one distinguished banker put it to me, "Would the government have shown the same indulgence to the CEO of a public sector bank?"

What RBI's consumer confidence survey says about 4 years of Modi govt

People's perceptions on their jobs and income prospects, as well as the general economic situation, has worsened significantly from June 2014

Thu, Jun 7 2018. Manas Chakravarty

The fourth anniversary of the Narendra Modi government has led to much discussion about its track record on the Indian economy. Predictably, the pros and cons have divided among ideological lines, making it difficult to have an impartial view. Thankfully, we now have the Reserve Bank of India's (RBI's) consumer confidence survey, which should be free of bias.

The survey is conducted in the six cities of New Delhi, Mumbai, Bengaluru, Chennai, Kolkata and Hyderabad and therefore reflects opinions among the citizens of metropolitan India.

The RBI survey says that 48% of those surveyed in May 2018 felt that the general economic situation has worsened from a year ago, while 31.9% said their economic situation had improved. That gives a net response of -16.1 percentage points (31.9 less 48). Four years earlier, in June 2014, the net response was -14.4, better than it is now. *Chart 1* has the data.

FADING EXPECTATIONS

People's perceptions and expectations on economy have worsened

Table 1: Perceptions and expectations on general economic situation (Percentage response)

Survey round	Current perception				One year ahead expectation			
	Improved	Remained same	Worsened	Net response	Will improve	Will remain same	Will worsen	Net response
Jun-2014	25.5	34.6	39.9	-14.4	56.7	25.6	17.6	39.1
May-2018	31.9	20.1	48.0	-16.1	49.5	22.7	27.8	21.7

Source: RBI

The consumer confidence survey also has data on people's expectations—whether they expect economic conditions to get better a year from the date of the survey. In May 2018, the percentage of respondents who thought the economic situation would get better was 49.5%, while 27.8% thought it would worsen. That sounds good, until we consider that the June 2014 survey had 56.7% who thought the economy would get better in a year's time and only 17.6% who thought it would get worse.

Expectations about the economy have come down sharply.

JOB SITUATION WORSENS

Perceptions and expectations about empoyment prospects have worsened

Table 2: Perceptions and expectations on employment (Percentage response)

Survey round	Current perception				One year ahead expectation			
	Improved	Remained same	Worsened	Net response	Will improve	Will remain same	Will worsen	Net response
Jun-2014	30.8	39.0	30.2	0.6	65.1	24.8	10.1	54.9
May-2018	31.5	24.4	44.1	-12.6	49.5	25.5	25.0	24.5

Source: RBI

Chart 2 has similar data for perceptions and expectations about employment. It shows that people's perceptions about the availability of jobs have worsened considerably, as have expectations about job prospects.

PESSIMISM ABOUT INCOME GROWTH RISES

Perceptions and expectations of income growth have worsened

Table 3: Perceptions and expectations on income (Percentage response)

Survey round	Current perception				One year ahead expectation			
	Improved	Remained same	Worsened	Net response	Will improve	Will remain same	Will worsen	Net response
Jun-2014	39.1	46.7	14.3	24.8	63.9	30.8	5.2	58.7
May-2018	27.2	48.9	23.9	3.3	50.8	38.9	10.3	40.6

Source: RBI

Chart 3 shows whether people think their incomes have increased or decreased in the last one year and whether they expect improvement in the next year. The survey numbers show a similar trend of fading expectations. Slightly more than half—50.8%—of those surveyed in May 2018 expect their income to increase in the next year. This measure was as high as 63.9% in June 2014.

INFLATION FALLS

Perceptions of inflation have improved but remain high

Table 4: Perceptions and expectations on rate of change in price level (Inflation) (Percentage response)

Survey round	Current perception				One year ahead expectation			
	Improved	Remained same	Worsened	Net response	Will improve	Will remain same	Will worsen	Net response
Jun-2014	87.1	11.1	1.8	-85.4	84.0	14.5	1.5	-82.4
May-2018	79.2	13.5	7.3	-71.9	78.0	16.5	5.5	-72.5

Source: RBI

There is, however, one silver lining. Chart 4 shows that people’s perceptions about inflation have improved, although the vast majority still think inflation is going to increase.

In short, the National Democratic Alliance government has a tough task on its hands in the one year before the elections to change the mood of disillusionment.

Fin Min mulls ways to boost biz correspondent network

SURABHI BUSINESSLINE MUMBAI, JUNE 7

Banks asked to remove inactive BCs, enrol more women for higher financial inclusion

Why is the vast network of business correspondents in the country not effective? The Finance Ministry is now looking at how the country's 1.26 lakh business correspondents (BCs) could be used more effectively, and is mulling measures such as increasing their bouquet of services and allowing more BCs to come up in all sub-service areas.

Financial inclusion

Business correspondents provide financial and banking services such as savings, deposits, remittance and insurance to people living in far-flung rural and unbanked areas, and are a critical part of the government's financial inclusion initiative.

Services offered by BCs could be expanded to include those required by rural people such as bill payments and mobile recharges.

"This will not only increase their usefulness for consumers, but also add to their income stream, making the profession of a BC more viable," said a person familiar with the development.

At present, they get a salary of ₹5,000 per month.

According to sources, the Department of Financial Services, in the Ministry of Finance, has held talks with stakeholders, including banks, National Payments Corporation of India, Unique Identification Authority of India, Nabard and private players, on ways to increase the effectiveness of BCs.

"The department had called a meeting with stakeholders to understand why the network of BCs has failed to achieve higher financial inclusion, and what could be done to ensure that banking services reach each and every part of the country," said another source who attended the meeting, adding that the other issue was how to increase the number of women who are currently engaged as BCs.

Though no official data is available, estimates put less than 5 per cent of women as BCs. Sources said the department is also looking at expanding the role of self-help groups and to allow them to become BCs.

"This will not only increase the reach of such correspondents to the members of the group, but since many of them are run by women, it will also ensure that more women become BCs," said the source.

Additionally, banks have been asked to allow transactions through dual authentication by SHGs.

Inactive BCs

Banks have also been asked to weed out inactive BCs and replace them with new correspondents who will be willing to work.

At present, about 8,764 BCs are registered as inactive.

To ensure that customers of BCs do not face problems in case of failed transactions, the RBI and NPCI may also set up a reconciliation system.

Bank recap insufficient for credit growth: Moody's

MUMBAI, JUNE 7 BUSINESSLINE

The bank recapitalisation plan of the Indian government will resolve the regulatory capital needs but it may not be sufficient enough to support credit growth, according to Moody's Investors Service.

Moody's Indian affiliate, ICRA, said that with the accelerated recognition of stressed assets during FY2018, the asset quality problems of the banking sector peaked in March 2018.

The capital shortfalls are larger because banks have failed to raise additional capital, with many of them having suffered substantial decline in share prices.

The government had planned to infuse Rs 65,000 crore into public sector banks this fiscal after infusing Rs 90,000 crore last fiscal. In its analysis, Moody's said that while this infusion will help all PSBs meet the common equity Tier I ratio of 8 per cent, it assumes that credit growth for the system will be only around 6-8 per cent. Besides this, infusion will also support a provision coverage ratio of about 62 per cent, an improvement over the 49 per cent last year, but still the adequacy of the provisioning would depend on the write-downs that banks will need to take for bad debt resolution.

Write-downs

Moody's expects write-downs in power and construction sector to be much larger than that in the steel sector so far. The government, while unveiling its capital support plan in October, had anticipated banks would raise Rs 58,000 crore from the equity market. They have raised only Rs 10,000 crore so far.

The share prices of the PSBs have declined by 19 per cent since the beginning of the year, compared to a 3 per cent increase in the Bombay stock market index, Moody's noted.

According to Moody's, a key negative credit implication of these developments is that the capital allocations for relatively better-run PSBs – State Bank of India, Bank of Baroda, Canara Bank and Syndicate Bank – will decrease while the capital needs of other banks have increased.

ICRA expects further additions to gross non-performing assets (GNPAs) to decline with fresh slippages falling to around 3 per cent during FY2019, compared to 7.1 per cent during FY2018 and 5.5 per cent during FY2017.

AIBEA THIS DAY MAY 8	
1998	AIBEA Central Committee meets at Pune.

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