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NPA situation likely to worsen further: RBI

PTI | MUMBAI, JUNE 26

THE HINDU BusinessLine

Painting a gloomy picture of the banking sector, the RBI today said Gross NPA ratio of banks is likely to rise from 11.6 per cent in March 2018 to 12.2 per cent by the end of the current fiscal.

In its Financial Stability Report (FSR), the RBI said stress in the banking sector continues as gross non-performing advances (GNPA) ratio rises further.

"Macro-stress tests indicate that under the baseline scenario of current macroeconomic outlook, SCBs' (scheduled commercial banks) GNPA ratio may rise from 11.6 per cent in March 2018 to 12.2 per cent by March 2019," it said.

Referring to the 11 state-owned banks under prompt corrective action framework (PCA), the RBI said they may experience worsening of their GNPA ratio from 21 per cent in March 2018 to 22.3 per cent by this fiscal-end.

Of the 11 banks, six are likely to experience capital shortfall relative to the required minimum CRAR (Risk-weighted Assets Ratio) of 9 per cent.

The 11 banks under PCA framework or RBI watchlist of their high bad loans are - IDBI Bank, UCO Bank, Central Bank of India, Bank of India, Indian Overseas Bank, Dena Bank, Oriental Bank of Commerce, Bank of Maharashtra, United Bank of India, Corporation Bank and Allahabad Bank.

The report further said profitability of all commercial banks declined, partly reflecting increased provisioning.

However, it added that credit growth picked up during 2017-18 notwithstanding sluggish deposit growth.

RBI says worst not over yet, bad loans will rise further this year

RBI, in its Financial Stability Report , says the gross non-performing asset (NPA) ratio of banks will rise to 12.2% by March 2019 from 11.6% at the end of the previous fiscal if economic conditions remain the same

Referring to the 11 PSU banks under prompt corrective action framework (PCA), the RBI said they may experience worsening of their GNPA ratio from 21% in March 2018 to 22.3% by this fiscal-end

Jun 26 2018 | Gopika Gopakumar

live mint

Mumbai: Bad loans at Indian banks, especially those controlled by the government, will increase further in the year to 31 March, placing additional strain on the already stressed financial system, a central bank study warned.

Gross non-performing asset (NPA) ratio of banks will rise to 12.2% by March 2019 from 11.6% at the end of the previous fiscal if economic conditions remain the same, said the Reserve Bank of India (RBI) financial stability report released on Tuesday.

The report said weak profitability of banks is an additional concern as it prevents lenders from setting aside adequate money to cover potential losses on loans and makes them vulnerable to adverse shocks.

In a scenario of severe stress, this ratio may rise to as high as 13.3% by March, the report said. For public sector banks, this ratio may jump to 17.3% by March.

Rising bad loans will also lead to further erosion of capital buffers. The capital adequacy ratio of banks will drop to 12.8% by March 2019 from 13.5% at the end of the previous year. A severe shock could, however, bring down the capital adequacy ratio of as many as 20 banks, mostly state-run, below 9%, the report said.

Analysing the effectiveness of prompt corrective action (PCA), the stability report said the gross NPA ratio of state-run banks under PCA will worsen to 22.3% by March, with six banks likely to experience capital shortfall under the baseline scenario.

“The ongoing churning in the financial sector following the operational-risk related incidents, the prompt corrective action on under-capitalised banks to prevent further deterioration and gradually nurse them back to health, and the disintermediation underway from bank to non-bank finance are all inevitable given the circumstances but need to be monitored carefully,” Viral Acharya, deputy governor, RBI wrote in the foreword to the report. “At such a juncture, the government’s front-loaded recapitalisation programme for the beleaguered public sector banks (PSBs) should impart robustness to the financial sector as a whole; however, governance reforms and market capital-raising appear to have again taken the backseat at the PSBs.”

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

The report also said RBI’s enforcement department, which was set up to monitor banks in case they violate regulations, has taken action against 13 banks (including a payments bank and a small finance bank) and imposed

‘Reforms in public sector banks have taken a back seat’

SPECIAL CORRESPONDENT
MUMBAI, JUNE 26, 2018
THE HINDU

If set rolling, reforms will spur performance, lower risk: RBI

The Centre’s initiative to reform public sector banks, begun in 2015 with the Indradhanush programme, appears to have lost steam, Reserve Bank of India’s (RBI) deputy governor Viral Acharya said. In his foreword to the Financial Stability Report, Mr. Acharya said while the Centre’s decision to frontload capital infusion in public sector banks should impart robustness, “governance reforms and market capital-raising appear to have again taken the backseat at the PSBs.”

According to the RBI, if governance reforms are undertaken promptly it would not only improve the financial performance of the banking sector but also help reduce operational risks.

Mr. Acharya said the central bank’s decision to put 11 under-capitalised banks under prompt corrective action (PCA) was aimed at preventing further deterioration and nursing them back to health.

Monitoring needed

However, the resulting shift of flows of finance to non-bank sources needs to be monitored carefully.

According to the Report, six state-run banks that are under the PCA framework may see their capital adequacy ratio drop below the minimum regulatory level of 9% by March 2019 if there is no further recapitalisation by the Centre. The gross NPA ratio of all commercial banks is likely to rise to 12.2% by March 2019 as compared with 11.6% in March 2018, under the baseline scenario of a macro stress test.

‘Reviving economy faces risks’

SPECIAL CORRESPONDENT MUMBAI, JUNE 26, 2018 THE HINDU

Investment revival reflects recovery but conducive conditions changing, says RBI

The Reserve Bank of India has observed that the 7.7% GDP growth in the last quarter indicates the “economy is well on the recovery track” on the back of a sharp pick-up in gross fixed capital formation, but warned gathering headwinds including fiscal and current account challenges posed risks to the economic momentum.

“There has been an uptick in capacity utilisation with some industries such as steel closing the gap,” the RBI said in its Financial Stability Report released on Tuesday. “The aggregate demand composition indicates a broad-based growth with revival of investment.”

At the same time, the conditions that had resulted in fiscal consolidation, moderation in inflation and a benign current account, were changing, warranting caution, the RBI said.

Specifically, it warned that the progress achieved on fiscal consolidation could face challenges unless there was buoyancy in tax receipts and restraint on expenditure.

The widening current account deficit — the shortfall widened in 2017-18 on the back of a wider trade deficit — was also a challenge as it impacted exporters’ cost-effective access to U.S. dollar credit. While aggregate export credit increased moderately between March and December 2017, it was critical to ensure that public sector banks had continued access to global money markets as they contributed about 45% of the export credit.

External risks

“Enhanced supply of export credit from private sector banks, foreign banks and non-banking financial companies could offset the potential adverse impact on trade credit,” it noted.

Externally, tightening liquidity conditions in developed markets were impacting emerging market currencies, bonds and capital flows. "Firming commodity prices, evolving geopolitical developments and rising protectionist sentiments pose added risks," it said.

RBI slaps Rs.60 million fine on Tamilnad Mercantile Bank

SPECIAL CORRESPONDENT
CHENNAI:, JUNE 26, 2018

THE HINDU

The fine is imposed on it for lapses in adhering to the master directions issued by RBI on issue and pricing of shares

The Reserve Bank of India (RBI) has slapped a fine of Rs. 60 million on Tamilnad Mercantile Bank Limited (TMB) for contravention of its directive.

The RBI said that the TMB had been fined for its lapses in adhering to the master directions issued by it on issue and pricing of shares.

"The penalty has been imposed in exercise of powers vested in RBI under the provisions of Section 47A (1) (c) read with Section 46 (4) (i) of the Banking Regulation Act, 1949 taking into account the failure of the bank to adhere to the directions while issuing bonus shares to certain non-resident entities,'' the apex bank said in a release.

More than a fifth of all public sector bank loans can go bad, warns RBI

Sees GNPA ratio of PSBs worsening to 22.3% in March 2019

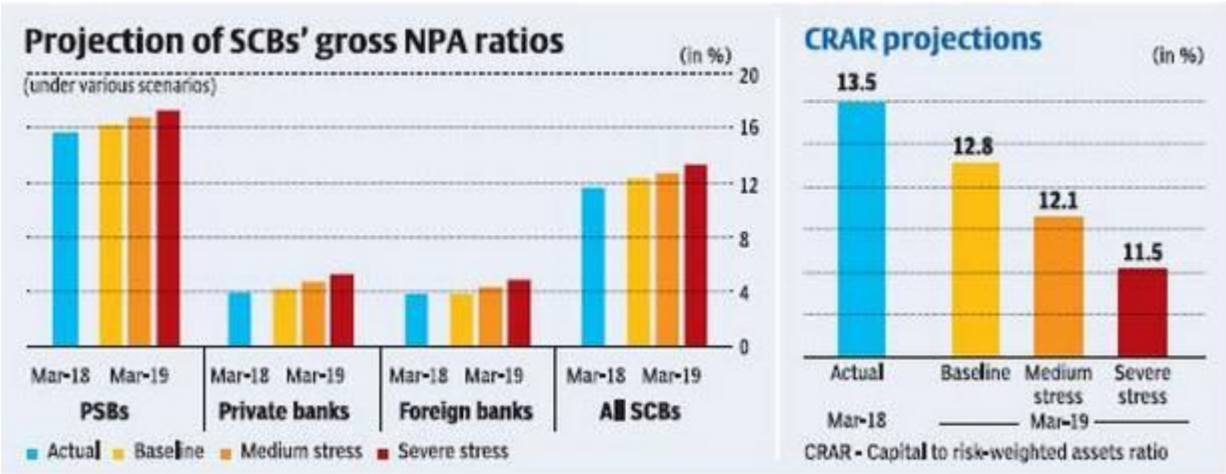
OUR BUREAU
MUMBAI, JUNE 26

THE HINDU BusinessLine

Flagging the continuing stress in the banking sector, the Reserve Bank of India on Tuesday said the gross NPAs of banks may rise from 11.6 per cent in March 2018 to 12.2 per cent by March 2019.

Macro-stress tests on public sector banks under the prompt corrective action framework (PCA) suggest worsening of their GNPA ratio from 21 per cent in March 2018 to 22.3 per cent by March 2019, with six PSBs under PCA likely experiencing capital shortfall, it said.

In its 17th Financial Stability Report, the RBI said the system level capital-to-risk-weighted assets ratio (CRAR) may come down from 13.5 per cent to 12.8 per cent during the period.



"However, the capital augmentation plan announced by the government will go a long way in addressing potential capital shortfall, as also play a catalytic role in credit growth at healthier banks.

"...Furthermore, governance reforms would not only improve the financial performance of banking sector, but also help reduce operational risks," said the report, adding that the country's financial system remains stable.

In recent years, the share of PSBs in credit delivery has been coming down, from 73 per cent (of total bank credit of scheduled commercial banks) as on March 31, 2008 to 65 per cent on March 31, 2018. Private sector banks have been stepping up to meet the demand.

Structural shifts are altering the pattern of credit intermediation and impacting market interest rates. These developments call for greater vigilance on the domestic macroeconomic front to reinforce financial stability.

The share of non-banking channels in the total flow of financial resources to the commercial sector increased from 10 per cent as on March 31, 2008 to 18 per cent in mid-March 2018. According to the FSR, impairment in the asset quality of the 11 PSBs under the PCA remains high, necessitating sizeable provisioning and de-leveraging, thereby constraining not only their capacity to lend but also the desirability of their lending and acceptance of public deposits.

Economic growth

Even as economic growth is firming up, the report said conditions that buttressed fiscal consolidation, inflation moderation and a benign current account deficit over the last few years are changing, thereby warranting caution.

Given the ongoing churning in currency markets and a febrile geopolitical atmosphere, the report cautioned that access for emerging market financial institutions to the US dollar liquidity pool may be fraught with challenges.

Referring to the gross fiscal deficit, which is budgeted to decline to 3.3 per cent of GDP in 2018-19 from 3.5 per cent in the preceding year, the report said there could, however, be challenges on the fiscal front unless there is a buoyancy in tax receipts and/or a restraint on expenditure.

LIC likely to face regulatory hurdle in IDBI Bank buyout

Could breach regulators' caps on equity holding

K RAM KUMAR
MUMBAI, JUNE 26
THE HINDU BusinessLine

Life Insurance Corporation of India's reported proposal to acquire a 40 per cent stake in the loss-making IDBI Bank may face regulatory headwinds as the former has an equity stake in many large companies the latter has given loans to, raising the possibility of breaching regulators' caps on equity holding in case the loans get converted into equity.

Market experts say that in the aforementioned scenario, the market and insurance regulators may take a dim view of the common shareholding of the public sector life insurer and the public sector bank as they will be seen as acting in concert.

Moreover, they feel that in case loans given by the insurance behemoth and the bank to the same entities in India Inc turn sour, it could have implications for the former as policy-holders' funds will be at stake.

Further, if the life insurer acquires a 40 per cent stake in IDBI Bank, it may have to shed its stakes in other banks. As of March-end 2018, LIC had stakes in a host of banks, including State Bank of India (9.98 per cent), ICICI Bank (12.38 per cent), Axis Bank (14 per cent), Punjab National Bank (12.24 per cent), Corporation Bank (13.03 per cent) and Bank of India (8.77 per cent).

Experts underscore that the banking regulator may not be comfortable with an insurer holding a large stake in a bank and at the same time having stakes in a slew of banks.

As at March-end 2018, the government and LIC held 80.96 per cent and 10.82 per cent, respectively, in IDBI Bank.

IDBI Bank is grappling with bad loans, which have reached 27.95 per cent of its gross advances. It needs a huge amount of capital to clean up its balance sheet and meet minimum regulatory capital requirements.

In FY2018, the bank received a capital infusion amounting to Rs.12,865 crore (Rs.4,590 crore from the government; Rs.7,881 crore again from the government via recapitalisation bonds; and Rs.394 crore from LIC).

ICICI Bank may take a call on new chairman by month-end

MD Mallya top choice, but board could delay decision over CBI questioning the former Bank of Baroda CMD for alleged loan fraud

SURABHI
MUMBAI, JUNE 26

THE HINDU BusinessLine

Private sector ICICI Bank is expected to take a decision on appointing a new Chairman to replace current incumbent MK Sharma by the end of the month.

While the former Bank of Baroda Chairman and Managing Director MD Mallya continues to be seen as the top contender for the post, sources said the lender may postpone a decision for some time. In such a case, board meetings can be chaired by one of the independent directors.

A decision is expected at the next meeting of the board of directors of ICICI Bank this week as Sharma's term ends on June 30. He is understood to have indicated that he does not wish to continue.

Mallya, a seasoned banker who had also served as the CMD of Bank of Maharashtra and Chairman of the Indian Banks Association, is understood to be the top choice of most directors. The board of ICICI Bank has also been in contact with the Reserve Bank of India for its approval.

CBI probe

However, Mallya, along with five other former officials of Bank of Baroda, was questioned this year by the Central Bureau of Investigation with regard to theRs.2,919-crore alleged loan fraud by Rotomac.

"This is the only issue, which could pose a problem with foreign investors. Otherwise Mallya is the top choice," said a source familiar with the development, adding that the bank board will have to take a decision with the RBI approval.

Alternatively, it could look to induct fresh people on the board, who can later serve as the Non-Executive Chairman of ICICI Bank.

Mallya was appointed to the board of ICICI Bank as an independent director on May 29. Other independent directors on the board include Uday Chitale, Dileep Choksi, Neelam Dhawan and Radhakrishnan Nair. The private sector lender is looking to improve its image with investors and customers after the recent allegations over corporate misconduct and quid pro quo against its Managing Director and CEO Chanda Kochhar in loans given to the Videocon Group. Kochhar is on indefinite leave until an independent inquiry initiated by the board, under former Supreme Court judge Justice BN Srikrishna, is completed.

Operational risks at PSBs on the rise: RBI

OUR BUREAU
MUMBAI, JUNE 26

THE HINDU BusinessLine

The Reserve Bank of India, on Tuesday, said that operational risks, especially in public sector banks is on the rise, and is indicative of weakness in internal controls and audits, risk management framework, and governance mechanism at these lenders.

"In terms of the relative share of frauds, public sector banks have a disproportionate share of over 85 per cent, significantly exceeding their relative business share of about 65 to 75 per cent," said the RBI in its Financial Stability Report of June 2018.

The report has called for a "ringside reassessment" of efficacy of internal and external audit framework, the internal governance framework, specifically with regard to accountability and also better credit screening, and oversight to address this risk.

"The 'Fugitive Economic Offenders Bill, 2018' could act as a major deterrence for willful defaulters," it added. The RBI's comments come at a time when most public sector banks have been hit by fraud cases, the largest being the Rs.12,700-crore fraud at Punjab National Bank by jewellery designer Nirav Modi.

The RBI report further noted that the fraud amount at PSBs under Prompt Corrective Action (PCA) is much higher, compared to their relative share in credit, and this could be due to lax internal controls which magnified their stressed asset positions.

With frauds in working capital loans on the rise at state-owned banks, the RBI said that this points to coordination issues in implementing the 'three lines of defence architecture', which consists of business line management, an independent corporate operational risk management function, and an independent review.

It also said that incentives to operating staff at banks are important for ensuring proper risk management.

AIBEA THIS DAY JUNE 28	
1954	**VI Conference of BPBEA. Com. Tridip Choudhury, MP Inaugurates. Com. Hiren Mukherjee addresses, Com. Prabhatkar, Jatin Bhattacharjee and Sushil Ghosh elected as President, General Secretary and Secretary.**
1957	**7000 employees in Punjab National Bank observe strike on bonus issue, transfers, promotion policy improvement etc.**
1990	**AIBEA Central Committee meeting at Delhi**
1996	**Employees of Jammu & Kasmir Bank begin indefinite strike against dismissals of leaders and others**

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