AIBEA's Banking News

19 JULY 2018

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

When we enter the 50th Year of Bank Nationalisation, we recall with pride the visionary leaders of AIBEA Com Prabhat Kar and Com Parvana in demanding nationalisation of Banks and leading the glorious patriotic struggle by bank employees and finally achieving the same on 19th July 1969 when Smt Indira Gandhi promulgated the Ordinance on Bank Nationalisation. Public Sector Banks have travelled a long way in the last five decades and taken the country forward. Today when there are attacks and challenges facing the Public Sector Banks, let us take the pledge to defend Bank Nationalisation and work for its continued success through further service to the people and by intensified struggles ………….. AIBEA

Bad loans recovery should be on war-footing, says AIBEA

Bad loans are just the tip of the iceberg

MUMBAI, JULY 18/ BUSINESSLINE

With stressed assets reaching alarming proportions, the All India Bank Employees' Association wants recovery of bad loans on a war-footing. The Association feels that resolution of bad loans via the Insolvency and Bankruptcy Code (IBC) is a bail-out for defaulting corporates at the cost of depositors' money.

"The banking sector has entered a danger zone with non-stop increase in bad loans. Non-performing assets are more than Rs 15 lakh crore. The Government recently admitted in a written reply in Parliament that there are 9,063 wilful defaulters who together owe Rs 1,10,050 crore to the banks.

"From AIBEA, we have been demanding that at least the wilful defaulters should be brought under criminal proceedings. This is being deliberately skirted and avoided," alleged CH Venkatachalam, General Secretary, AIBEA.

He said the long pending demand to publish the names of the bank loan defaulters is yet to be accepted by the Government and the RBI.

"Even in the past also, there has been velvet treatment to the defaulters – one time settlements, interest waivers, compromise settlements, rescheduling, restructuring,..., write-off, etc.

"**For the small borrowers, farmers, students, etc. the recovery laws are stringent and they are being unduly harassed. For the big borrowers, it is concessions all the way**," the AIBEA General Secretary said.

Venkatachalam observed that while AIBEA wants recovery of bad loans, the Government talks of resolving bad loans.

"IBC is their resolution module. But the RBI has already indicated that in this processes there would be steep haircuts. The haircut is clearly visible now," he added.

Referring to the case of Bhushan Steel, where the loan outstanding referred to the National Company Law Tribunal (NCLT) was Rs 56,000 crore, the Association general secretary said the Tatas have taken over this company for Rs 35,200 crore, leading to the resolution of one NPA account. But banks have lost Rs 21,000 crore. **That is a haircut of nearly 40 per cent.**

Venkatachalam elaborated: "Then came the Electrosteel Steels deal. The dues to the banks were Rs 13,600 crore....Vedanta has purchased it for Rs 5,320 crore....banks sacrificed Rs 8,400 crore. **The haircut is 60 per cent.**

"Now comes the Alok Industry deal. The company owes Rs 30,000 crore. Reliance takes over the company for Rs 5,000 crore...Banks sacrificed Rs 25,000 crore. **The haircut in this case is 83 per cent**...This is just the beginning. More such deals will follow soon."

After public outcry, Govt drops FRDI Bill

Controversial 'bail-in' clause had unnerved bank depositors

NEW DELHI, JULY 18 BUSINESSLINE

The government has decided to drop the controversial Financial Resolution and Deposit Insurance (FRDI) Bill, thus allowing bank customers to breath easy.

The Union Cabinet, which met on Wednesday, decided to drop this Bill, a senior Cabinet Minister told BusinessLine. This means the present system of insurance deposits will continue and customers will not have to worry about the 'bail-in' provision in the proposed Bill.

Since introduction and any change thereafter in the Bill would have required Cabinet approval, dropping the Bill also required it.

Two clauses

The Bill was introduced in the Lok Sabha on August 10, 2017, and then sent to the Joint Committee of the Parliament, which is yet to submit its report. There were two controversial clauses in the Bill: a bail-in provision and an insurance on deposits.

The bail-in provision stipulated that if a bank fails, depositors will have to bear part of the liability. Technically speaking, this provision says, "It amounts to liabilities' holders bearing a part of the cost of resolution by reduction in their claims."

The government repeatedly said that the bail-in provision "may not be required to be used in case of any specific resolution. Most certainly, it will not be used in case of a public sector bank as such a contingency is not likely to arise," Nevertheless, it angered depositors and invited criticism from opposition parties.

Currently, deposits are insured up to Rs 1 lakh. The Bill proposed to delete the legal provision for the present insurance system and defined this protection in a new way. Here, too, the government made it clear that "similar protection would continue under the FRDI Bill and the Resolution Corporation is empowered to increase the deposit insurance amount."

It also said that under the provisions of the FRDI Bill, in case of liquidation of a bank, the claims of uninsured depositors will be higher than those of unsecured creditors and government dues. Therefore, "the rights of uninsured depositors will be better protected... in the FRDI Bill."

However, the perception was that there would not be any insurance cover, which prompted the opposition attack. Also, many advocacy leaders advised the government to withdraw the Bill as it had not been well-received. "In an election year, it would not be correct to go ahead with such a controversial Bill," a Minister said.

Arguing for the provision, the Finance Ministry had said that there was no comprehensive and integrated legal framework for resolution, including liquidation, of financial firms in India. The power to restructure public sector banks, and regional rural banks was with the Centre.

Resolution regime

The current resolution regime is especially inappropriate for private sector financial firms in the light of significant expansion and many of these acquiring systemically important status in India. With the Insolvency and Bankruptcy Code, 2016, a comprehensive resolution regime for nonfinancial firms mainly has come in, but there is no such mechanism for financial firms.

This Bill intended to provide a comprehensive resolution regime that would help ensure that, in the event of failure of a financial service provider, there is quick, orderly and efficient resolution in favour of depositors.

AIBEA welcomes this decision of the Government to withdraw the FRDI Bill. It was not in the interest of the people. AIBEA appeared before the Parliamentary Committee and expressed its protest. AIBEA had opposed the Bill through campaigns and strike actions. We are happy that the Government is withdrawing the Bill.

'Govt should show seriousness in the viability of PSBs'

NS VAGEESH, BUSINESSLINE 18 7 18 Mumbai

Devidas Tuljapurkar, Joint Secretary, All India Bank Employees Association

AIBEA leader points out shortcomings of public banks

Tomorrow marks the start of the golden jubilee year of bank nationalisation in the country. In light of the troubles that public sector banks have gone through in the past few years, it may strike some as a decision that, in retrospect, may have been inappropriate. But there are others who are strong votaries of the decision and maintain that it was the right thing to do at that time, never mind what happened later.

Devidas Tuljapurkar, Joint Secretary, **All India Bank Employees Association (AIBEA)**, is among those who strongly defend then Prime Minister Indira Gandhi's decision to go nationalise banks in July 1969.

He argued that the first three five-year plans – while they had strengthened agriculture and industrial base of the country – did not completely meet the needs of India because there was no market, and buying power among people was limited. With capital in the hands of a few, and a wide cross-section of people and sectors, such as agriculture and small scale industries, totally cut off from access to formal channels of finance, which was in private hands, the only way to revive the then moribund economy was to nationalise banks and allow them to expand their clientele.

Citing figures, Tuljapurkar points out how the number of branches have expanded from just about 8,187 then to 1.40 lakh now. Deposits have grown from Rs 4,822 crore to Rs 114.79 lakh crore, while loans have grown from Rs 3,467 crore to Rs 86.82 lakh crore during the same period.

In the years immediately following nationalisation, access to agriculture finance, too, improved – a particularly poignant detail because India was at that time importing American wheat to avoid mass starvation. Successive years of drought and the loss of morale following two wars had created a very difficult situation for the government then.

What about the mess then, that public sector banks are in right now? Tuljapurkar contends that the fault is with the owner – the government, which doesn't seem to care about its offspring. He points out that about half a dozen public sector banks (including Allahabad Bank, Syndicate Bank, Dena Bank and Andhra Bank) have been headless for months.

Second, even in other public sector banks, the board of directors don't wear a full and complete look. There are no representatives for depositors, agricultural sector, SSIs or even workmen and officers in many banks.

Third, top management officers belonging to Scale VI and VII (Deputy General Managers and General Managers) are much below sanctioned strength in many banks. So, management strength is also inadequate.

Scientific recruitment

Fourth, many banks have diluted the standards – whether in appraisal marks or relaxing minimum eligibility criteria for promotion to higher scales – since no recruitment took place for many years. And there is a huge gap of management capacity in many banks.

Fifth, even among banks, there is an unevenness in promotions. In some banks, officers have risen from Scale I to Scale IV in just five years – often without adequate exposure to various skills. No scientific recruitment has taken place and nor has there been a proper attempt to improve the training infrastructure while retaining distinct cultural attributes of each bank, said Tuljapurkar.

Pointing out that public sector banks played the main role in helping the economy and the common man post-demonetisation as well as in opening Jan Dhan accounts, he asked the government to be clear about whether it wanted accounting profit or social profit.

He called upon the owner (government) to show seriousness and conviction in the viability of public sector banks by addressing the shortcomings with a sense of urgency.

Despite public sector banks posting losses of about □80,000 crore last fiscal, the fact that the general public continue to deposit money with them till now, is an indication of their inherent strength, Tuljapurkar highlighted.

Parliament nod for merger of subsidiary banks with SBI

The bill will repeal the State Bank of India (Subsidiary Banks) Act, 1959

NEW DELHI, JULY 18 BUSINESSLINE

The Rajya Sabha on Wednesday passed the State Banks (Repeal and Amendment) Bill.

The legislation, which was passed in the Lok Sabha during last year's Monsoon Session, will remove provisions in the State Bank of India Act pertaining to its erstwhile associate banks: State Bank of Bikaner and Jaipur, State Bank of Mysore, State Bank of Patiala, State Bank of Travancore and the State Bank of Hyderabad.

The Bill will repeal the SBI (Subsidiary Banks) Act, 1959, and the State Bank of Hyderabad Act, 1956.

The Bill was passed unanimously. Minister of State for Finance Shiv Pratap Shukla told members that the merger of subsidiary banks will make SBI profitable, improve its working capital and aid it in offering better services.

Opposition's concerns

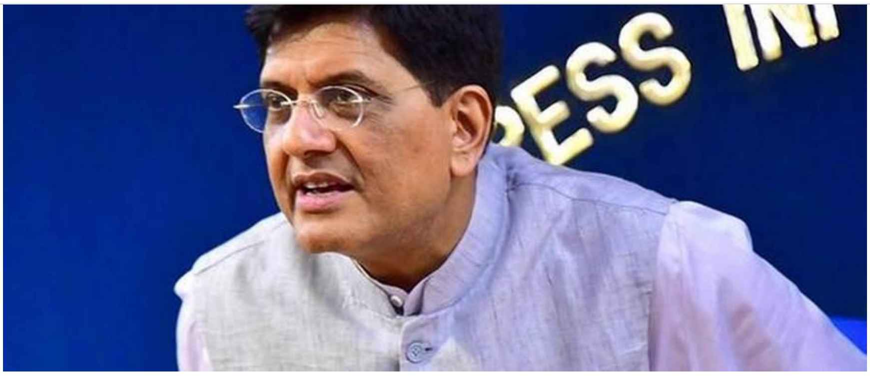
Earlier, participating in the debate, Opposition members shared their concerns over the problems in the banking sector. Congress leader **Jairam Ramesh** said privatisation and de-nationalisation were no answers to the structural problems faced by the banks.

"I would like the Minister of State to give an authoritative statement on the behalf of the government that privatisation of banks or de-nationalisation of banks is not on government's agenda," Ramesh demanded. "We keep hearing from time to time that India requires lesser number of banks, banks should be merged. Sometime, we also hear that banks must be re-privatised," he added.

CPI leader D Raja said the merger could have been avoided. "When the government decided to close down the five subsidiary banks and merge them with State Bank of India, we were told that this would make the State Bank of India a world-class bank and a stronger bank, but the story now is different. SBI is making losses. Hundreds of branches have been closed down in many parts of the country. NPAs have gone up," he said.

The Opposition also criticised the Centre's decision to initially introduce an Ordinance on the matter.

FinMin okays capital infusion of over Rs 11,000 cr in five PSBs



Piyush Goyal, Interim Minister for Finance.

NEW DELHI, JULY 17 **BUSINESSLINE**

The Finance Ministry on Tuesday gave its nod for capital infusion of

Rs 11,336 crore in five weak public sector banks to help them tide over any situation of breach of regulatory capital requirements.

The five banks that are to get capital support under this round are Punjab National Bank (Rs 2,816 crore); Indian Overseas Bank (Rs 2,157 crore); Andhra Bank (Rs 2,019 crore); Corporation Bank (Rs 2,555 crore) and Allahabad Bank (Rs 1,790 crore).

These banks, including PNB, which has been hit by the Rs 13,000-crore Nirav Modi scam, are facing tough times in servicing the additional Tier-I bonds, which formed part of their capital structure, it is learnt.

The latest round of capital support will come in handy for these banks to meet their obligations to investors of AT-1 bonds, which carry higher interest rates, sources said.

The government had in October last year announced Rs 2.11-lakh crore capital infusion programme over two financial years.

As per the plan, the public sector banks were to get Rs 1.35-lakh crore through recapitalisation bonds and Rs 58,000 crore to be raised by banks from the market.

Of this Rs 1.35-lakh crore, already Rs 71,000 crore has been pumped into the banks through recap bonds.

The latest round of Rs 11,336 crore is likely to come out of the remaining Rs 65,000 crore in the Rs 1.35-lakh crore window.

Public sector banks are currently reeling under the pressure of the bad-loan mess, which is estimated to be over Rs 9-lakh crore.

Currently, as many as 11 of the 21 state-owned banks are under the Prompt Corrective Action (PCA) framework of the RBI.

Several of these weak banks are waiting for an opportune time to hit the market to raise capital. A majority of the 21 banks have their board approvals for the capital mop-up from the market.

Shortage of gunmen may hold up cash movement at banks

Lenders hit by govt restriction on issuance of gun licences, RBI's strict norms

MUMBAI, JULY 17 K Ram Kumar BUSINESSLINE

An acute shortage of gunmen, due to government restrictions on issuance of gun licence, has become a cause for concern for banks and cash replenishment agencies (CRAs) as the Reserve Bank of India (RBI) has directed that cash movement should be done only on four-wheelers with two armed guards.

Internal guidelines

A majority of the banks have been following internal guidelines for cash movement for ATM replenishment. But the RBI has stipulated that cash should be transported only in owned/leased security cash vans of the service provider (CRA), or its first level sub-contractors, and that no cash van should move without (two) armed guards.

As per banks' internal guidelines, cash up to Rs 15 lakh is usually carried on body with complete insurance cover. A four-wheeler (without armed guard) with complete insurance cover is deployed to carry cash between Rs 15 lakh and Rs 20 lakh.

A four-wheeler (with one armed guard) with complete insurance cover is deployed to carry cash between Rs 20 lakh and Rs 50 lakh. Further, a four-wheeler (with two armed guards) with complete insurance cover is deployed to carry cash between Rs 50 lakh and Rs 1 crore. Banks have told the central bank that given the government restrictions on issuance of gun licence, there is acute shortage of gunmen at present.

Bankers feel that the inclusion of additional gunmen and providing a list of gunmen to police authorities on a monthly basis seem challenging.

Hence, it is necessary to rationalise the restriction on issuance of gun licence before implementation of the RBI policy. This may be time consuming as the gun licensing policy of the government needs to be modified. Further, in line with insurance policy, banks have suggested to the RBI that the gunmen requirement should be linked with the amount being ferried.

"When there is cash shortage in any of our branches/ATMs, we rush cash from the nearest branch. Our officials engage either the bank's own vehicle or hire a cab and move the cash (Rs 10-15 lakh), taking ample precaution. We have not faced any problem so far.

"RBI's new stipulation on cash movement will increase the cost of physical and security infrastructure. We will have no choice but to pass it on to customers by way of increase in service charges," said a banker. He added that the guidelines on gunmen requirement need to be reviewed.

ICICI audit committee probing irregularities into 31 NPA a/cs

NEW DELHI, JULY 17 PTI/BUSINESSLINE

The independent audit committee investigating the alleged irregularities in 31 NPA accounts of ICICI Bank has hired a law firm to assist the panel, an official said today.

"An independent law firm has been appointed by the audit committee looking into the matter," said a bank official on the condition of anonymity.

He said however that as the audit committee comprises the bank's independent directors, the bank is not aware of the name of the law firm hired in this matter that is under investigation. As per reports, law firm Panag & Babu has been roped in by the audit committee. However, when contacted, the firm's spokesperson declined to comment.

ICICI Bank said in June that it had received an anonymous complaint which alleged irregularities with respect to 31 borrower accounts, leading to incorrect asset classification.

The audit committee of the board of directors of the bank has three members chaired by Uday Chitale, Dileep Choksi (alternate chairperson) and Radhakrishnan Nair. "Further actions in this matter are being/will be taken as directed by the Audit Committee," the bank had said in a stock exchange filing of June.

All the 31 accounts were classified as non-performing between the year ended March 31, 2012 and the year ended March 31, 2017. The aggregate loans outstanding at March 31, 2018 were Rs 6,082 crore (USD 898 million), about 1.1 per cent of gross loans.

Separately, ICICI Bank's CEO and MD Chanda Kochhar is facing an independent enquiry in connections with loan given to Videocon Group and has gone for leave pending the probe completion.

Govt introduces legislation to tackle ponzi, unregulated deposit schemes

Law proposes 10-year jail term, fine of up to Rs 50 crore for duping depositors

NEW DELHI, JULY 18 BUSINESSLINE

In an effort the curb the menace of ponzi schemes, the government on Wednesday introduced a Bill which proposes a ban on unregulated deposits, and a 10-year jail term for perpetrators of such schemes.

Introduced by the Minister of State for Finance, Pon Radhakrishnan, the 'Banning of Unregulated Deposit Schemes Bill, 2018' has three key elements — punishment for promoting or operating an unregulated deposit scheme, stringent punishment for fraudulent default in repayment to depositors, and designation of a competent authority by the State government to ensure repayment of deposits in the event of default by a deposit-taking establishment.

The Bill contains a clause that bans deposit-takers from promoting, operating, issuing advertisements or accepting deposits in any unregulated deposit scheme.

"The Bill seeks to put in place a mechanism by which the depositors can be repaid without delay, by attaching the assets of the defaulting establishments," said the Statement of Objects and Reasons of the Bill. Non-banking entities are allowed to raise deposits from the public under various laws enacted by the Central as well as State governments. However, the regulatory framework for deposit taking activities in the country is not seamless as regulators operate in well-defined areas within the financial sector by regulating particular kind of entities or activities.

Ex-ante framework

The principle is to ban unregulated deposit-taking activities altogether, by making them an offence ex-ante, rather than the existing legislative-cum-regulatory framework, which only comes into effect ex-post with considerable time lags.

The Bill creates three different types of offences, namely, running of unregulated deposit schemes, fraudulent default in regulated deposit schemes, and wrongful inducement in relation to unregulated deposit schemes. The Bill prescribes monetary penalty and jail term of up to 10 years for duping gullible depositors.

The monetary penalty could be as high as Rs 50 crore.

The government has proposed these stringent provisions in wake of several ponzi schemes where gullible investors, mostly poor people, were defrauded of amounts running into thousands of crores of rupees.

Ensuring repayment

The Bill also proposes setting up of competent authorities by State governments to ensure repayment of deposits in the event of default by a deposit-taking establishment. Companies or institutions running unregulated schemes exploit existing regulatory gaps and lack of strict administrative measures.

Due to increase in instances of people in various parts of the country being defrauded, the Finance Minister, in his Budget Speech of 2016-17, had announced a comprehensive central legislation to deal with the menace of ponzi schemes.Subsequently, in Budget Speech 2017-18, he had announced that the draft Bill to curtail the menace of illicit deposit schemes had been placed in the public domain and would be introduced shortly after its finalisation.

AIBEA THIS DAY JULY 19	
1969	Major political decision by Government. 14 major private banks nationalized. AIBEA welcomes the move as AIBEA fought for this. Celebrations throughout the country by AIBEA members to celebrate the achievement.

ALL INDIA BANK EMPLOYEES' ASSOCIATION

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