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Bad loans are just the tip of the iceberg

RK PATTNAIK / JAGDISH RATTANANI, businessline

Banking sector Groaning under a pile of bad debt

Indian banks are hit not just by the alarming rise in NPAs but also by serious governance issues

There has been an increased interest around the world in financial stability reports and attendant stress tests on the banking sector since the 2008 global financial crisis. In India, the institution of the Financial Stability Report (FSR) as a formal, half-yearly document from the Reserve Bank of India (RBI) began soon after the crisis. The latest report released on June 26 offers, in the words of the RBI Deputy Governor Viral Acharya, "a health check of the financial system through the lens of stress test and contagion analysis."

The FSR is not a statutory report — neither the RBI Act nor the Banking Regulation Act mandate it. Such a report should therefore stand out as a proactive effort that must flag the dangers on the road ahead and prepare the ground to drive in inclement weather.

In the context of complex global conditions and evolving domestic risks, the FSR is like an early warning bell with "what if" analysis so that we are better prepared for various scenarios. Indeed, the FSR was introduced in March 2010 with this aim — to emerge as "one of the key instruments for directing pre-emptive policy responses to incipient risks in the financial system", as the RBI put it then.

Eight years and 17 reports later, it is not clear if "pre-emptive" actions have worked to control some of the mess that is all too obvious in the system. One of the key failures remains the rising tide of non-performing assets, or NPAs, which stands out in the latest FSR as one of the deeper (though not the only) risks to financial stability.

It is ironic that the institution of the FSR appears to have coincided with a steady decline in stability indicators, leading to legitimate concerns on the gap between the rising number of red flags and our preparedness for scenarios highlighted by the FSR.

Enough has been written about how bad the NPAs could get in all three scenarios covered by the latest report — the baseline scenario which looks at the prevailing macro-economic indicators and two adverse macroeconomic risk scenarios (medium and severe). The bottomline is that this is a bad situation getting worse.

Twenty banks (18 of them in the public sector) having a share of almost 60 per cent of total bank assets will fail to maintain the required Capital to Risk-weighted Assets Ratio (CRAR) of nine per cent if a severe risk were to materialise. This is an alarming (but plausible) scenario.

Large borrowers at fault

Large borrowers (who have aggregate fund-based and non-fund based exposure of □5 crore and above) accounted for 54.8 per cent of advances and 85.6 per cent of NPAs. Furthermore, top 100 large borrowers contributed to 15.2 per cent of advances and 26 per cent of NPAs. This tells us that (a) the banking system instability has been contributed by the large borrowers, (b) concentration of large borrowers in advances means banking penetration among the small borrowers has not been so encouraging even with priority sector lending norms and (c) smaller borrowers are more disciplined and so less risky for banks.

Modern day banking in India is thus a living example of the adage that if you borrow Rs 100, that's your problem, and if you borrow □100 million, that's the bank's problem.

Coupled with issues of governance that have emerged at ICICI Bank, India's largest private sector bank, at the level of no less than the Managing Director, the risk is more than financial. The biggest risk is ordinary citizens losing faith in the banking process itself, and the prospect of the socio-politico-economic turmoil that this can stir up.

Meeting these challenges requires more than the actions that the RBI cites, like the Prompt Corrective Action (PCA), under which RBI has placed 11 public sector banks.

These banks face restrictions on distributing dividends, remitting profits and even on accepting certain kinds of deposits, apart from restrictions on the expansion of branch network, and the lenders need to maintain higher provisions, along with caps on management compensation and directors' fees.

A natural fallout is that these banks are constrained. They can no longer play their role fully in credit delivery. This has its own negative fallouts on the economy, underlining the vicious cycle at work.

Apart from PCA, the RBI has been relying heavily on the resolution mechanism offered by the Insolvency and Bankruptcy Code, 2016. How well that will work remains to be seen. The PCA and IBC are both fixing leaks; they do not guarantee that there will be no further leaks. Both processes have limitations in addressing structural issues associated with internal controls, internal audit and governance mechanisms.

That is the elephant in the room and needs to be fixed with strong messages, stronger action and a new and better level of professionalism in the banks along with exemplary punishment for violators.

The governance factor

There is no denying that the NPA is an issue of governance, linked to appointments, pressures from "above" coupled with wild bureaucratic mismanagement and poor oversight. Anecdotal stories abound on how loans are fixed.

Given the current scenario, the FSR displays unwarranted optimism when it concludes that "India's financial system remains stable". In fact, this is precisely the kind of comment that is not to be made in an FSR, which must not only simulate scenarios but also communicate them to the ecosystem with equal vigour. This means taking the message to the common citizen, a task often lost sight of in the thick of technical jargon that backrooms like to play with.

In introducing the report, Deputy Governor Acharya wrote: "…assessment of financial stability is key to taking right measures so as to evolve our financial sector to be more resilient following a difficult decade in the banking sector; it will help ensure, as Robert Browning said "My sun sets to rise again".

A better prescription in these times would be the words of IMF Managing Director Christine Lagarde, who said in another context, "the time to repair the roof is when the sun is shining."

Rattanani is a journalist and Pattnaik is a former Central banker.

NDA to withdraw FRDI Bill: AIBEA

Hyderabad, July 20 (UNI)

The All India Bank Employees' Association (AIBEA) on Friday said the Union Cabinet has taken a formal decision to withdraw the Financial Resolution and Deposit Insurance (FRDI) Bill.

In a circular to all its units and members, AIBEA General Secretary Ch Venkatachalam said, ''Ever since the Union Government introduced the FRDI Bill in the Winter session of Parliament in 2016, we have been pointing out that this Bill is an 'anti-people' measure and another method to bail out the corporate defaulters at the cost of the common depositors.

''This danger was sought to be perpetrated by adding the 'Bail In' clause in the Bill,'' he added.

Mr Venkatachalam said this created so much of anxiety and fear in the mind of the common public that their money in the Banks is not that safe and the BJP-led NDA government may do anything to endanger their savings.

In fact, there were huge panic withdrawals and closure of deposits in many branches of various Banks, in the wake of the Bill being introduced, he claimed.

''During the All India Strike on February 28, 2017, we highlighted this issue and made people aware of the negative aspects of the Bill. Again, in the All India bank strike on August 22, 2017, withdrawal of FRDI Bill was one of the prominent demands.

''Further, in the massive Morcha to Parliament programme on September 15, 2017, we focused on this issue prominently and this was one of our important demands, when UFBU delegation met the Finance Minister.

''We have been highlighting that this FRDI Bill is unwarranted since Clause 45 of the Banking Regulations Act provides merger of an ailing Bank with another Bank and there is no question of liquidating any Bank,'' the AIBEA General Secretary added.

Mr Venkatachalam said AIBEA had also explained how this important change in the Act was brought, when Com Prabhat Kar was a Member of Parliament in 1962, representing the Communist Party of India (CPI).

In September, 2017, AIBEA appeared before the Joint Parliament Committee (JPC) and made its detailed submissions and presentation, he pointed out.

''We organised a country-wide campaign during the entire 2017 and in all the meetings, this issue was Highlighted. We approached various political parties and urged upon them to take up the issue politically and also in Parliament. Many political parties like the Congress, CPI, CPM, TMC, DMK and many others – opposed the Bill.

''Since FRDI Bill deals with both banking and insurance sector, the issue was taken up by the Co-ordination Committee of Bank, Insurance and Finance Sector Unions (CCBIFU), which is formed recently, and this was very much highlighted in our nation-wide Dharna programme on July 14, 2018.

''We also highlighted our viewpoints through social media and could get wide support for the same. The print and electronic media also covered the issue, apart from our viewpoints and reason for our opposition to the Bill in a big way.''

In view of this, Mr Venkatachalam said, the government was deferring the Bill from one Parliament session to another. But looking to the overall protest from all quarters and also looking to the Lok Sabha election next year, the NDA government has decided not to go ahead with the FRDI Bill.

He said in the days to come, ''we can expect more and more onslaughts on the banking sector and attacks on people's interest''.

''While the AIBEA congratulates all our units and members for being in the forefront of this movement in pushing back this ''anti-people'' FRDI Bill, we exhort all of you to remain vigilant against emerging challenges and be prepared for further struggles.

''Our Slogan is People's Money for People's Welfare – Not for Private Corporate Loot,'' Mr Venkatachalam added.

India’s banking revolution fails to reach the poor

BIBHUDATTA PRADHAN and VRISHTI BENIWAL

17 July, 2018 ThePrint

Pulled into the banking system, villagers have ended up stuck in long queues and struggling with dry ATMs.

A shortage of bank branches and ATMs across India’s hinterland is holding back Prime Minister Narendra Modi’s financial inclusion efforts and risks angering rural voters ahead of elections next year.

After taking office in 2014, Modi set an ambitious target to open a bank account for every household to ensure welfare funds flow directly to India’s poor, while improving access to credit and insurance programs. He pushed policies that helped bring 310 million people into the formal banking system in just four years, according to the World Bank. But many of India’s villages still lack bank branches or ATMs to help service these new customers, while the pace of building new financial infrastructure has actually slowed.

Because Modi’s government effectively forced poor citizens into the banking system by linking some welfare benefits to bank accounts, villagers have ended up stuck in long queues and struggling with ATMs that often run out of cash or break down. With an election due next year, the mismatch between the government’s policies and the rural banking system is generating frustration among a key slice of India’s electorate.

“In rural areas, we have found a serious and debilitating shortage of banking infrastructure,” said associate professor Reetika Khera of the Indian Institute of Management in Ahmedabad, Gujarat, who has conducted research in India’s villages. “A very large number of poor laborers and social security pensioners are affected by these issues on the ground, so it won’t be surprising if people are angry.”

A spokesman for the Prime Minister’s Office did not return a call seeking comment. Finance ministry spokesman D.S. Malik said the government has taken steps to ensure Modi’s financial inclusion policies are enacted, including empowering individuals such as teachers and shopkeepers to provide some banking services as well as improving rural banking infrastructure.

‘Take Away My Money’

While India gained about 25,000 bank branches and 45,000 ATMs in the four years to March 2018, growth has not kept up with a surge in new customers.

India’s banking system “lags in terms of physical infrastructure and has failed to reach the poor,” said a 2017 study from EY and the Associated Chambers of Commerce and Industry of India, which found 19 percent of the population still lacks access to the formal credit system.

The experience of villagers in Jogaliya in Rajasthan, India’s largest state by area, is typical. The village of about 5,500 people has no bank branch or ATM, and the closest one is 15 kilometers away. That’s a 60 rupee (87 cents) bus ride that would have been unnecessary before the government made it mandatory to have bank accounts to get old-age pensions and other welfare payments.

"They don't increase facilities, but they take away my money," said Rajuram Jat, 32, of Jogaliya, who complained in late May about endless text messages and charges from his bank. He said he wouldn't vote for Modi in 2019.

Demonetization

Many Indians were forced to get bank accounts when Modi demonetized 86 percent of India's cash overnight in November 2016.

The banking system struggled to keep up, while some gains proved temporary. Nearly half of Indian bank accounts were inactive in 2017, meaning they weren't used at all in the previous 12 months — the highest share in the world — according to a World Bank report. A pilot program that looked at the direct transfer of funds to villagers' bank accounts in the eastern state of Jharkhand showed some people had to spend as much as 96 hours withdrawing money and purchasing rice from government ration shops.

With financial and digital literacy already low, cash shortages and "issues with direct benefit transfers further dent public faith in electronic payments and reinforce the demand for physical currency," said Saksham Khosla, a research analyst at Carnegie India.

The displeasure is not limited to bank customers: Roughly 1 million bank employees went on strike in May demanding higher salaries. It hasn't helped that Modi began a bank bailout around the time public sector lenders were engulfed by a wave of corruption allegations.

"Banking infrastructure will always look inadequate to us because of our huge population and the difficulties in accessing cash," said Sumita Kale, an economist at Indicus Centre for Financial Inclusion. "Still, as so many people come into the banking system for the first time, there has to be a better monitoring and supervision framework."- ***Bloomberg***

THE STATE BANKS (REPEAL AND AMENDMENT) BILL, 2017

DEBATE IN RAJYA SABHA – 18 7 2018

SHRI D. RAJA (TAMIL NADU): Thank you, Sir. What is the purpose of this Bill? The purpose of this Bill is to ratify the closure of subsidiary banks and their merger with the State Bank of India. Sir, I am sorry to state that Parliament has been reduced to such an extent that it has to fulfill the ritual of giving ratification. That is what we are trying; that is what we are discussing.

When the Government decided to close down the five subsidiary banks and merge with the State Bank of India, we were told that this would make State Bank of India a world-class bank, and a stronger bank.

What is the story now? The story is different. State Bank of India is making losses.

Let the Government say there is no loss in the State Bank of India branches.

Hundreds of branches have been closed down in many parts of the country.

The Non-Performing Assets have gone up. Many big NPA accounts have gone to the Insolvency Tribunal. Is it not a fact? Let the Government say, 'No, no; everything is fine with the State Bank of India.' You say and let the people understand, let the Parliament understand.

But, I am saying that many NPA accounts have gone to the Insolvency Tribunal. The State Bank of India, I am afraid, will make further losses in the coming days.

Subsidiary banks, like the State Bank of Travancore and State Bank of Hyderabad, were doing very well. By closing down these banks and merging with the State Bank of India, what benefit did we get? I find there is no benefit.

The people in States like Kerala, Andhra Pradesh, Telangana, Karnataka, Punjab and Rajasthan have lost their regional banks by way of merger of subsidiary banks with the State Bank of India.

We find that the Government is in a hurry to do things and then come to Parliament for ratification. Why can't the Government take Parliament into confidence? Why should the Government take decisions behind the back of Parliament bypassing it?

After that, you come to Parliament for ratification. Is it good for our democracy? The Government should think over it.

Sir, I can point out that the Government did demonetization overnight. Now the country is facing problems; even today the country is facing problems.

The Government hurried with the GST in the name of 'one nation one tax'. Now we see the problems. You understand and I understand the problems.

Sir, the Government brought an ordinance on insolvency action on defaulters. What is the fate of that ordinance? Banks have lost money and no recovery has been made through this measure. If the Government says, 'No, you are saying wrong things', let the Government explain. I am subject to correction. But the banks have lost money and no recovery has been done through this measure. The Government should think over.

Sir, the Government should consult Parliament before taking any decision. I wish they reviewed these policies.

Merger with the State Bank of India was avoidable. It is my view. But the Government was in a hurry to do it. Now the Government has made it a fait accompli because it has been done earlier. Now you ask the Parliament to ratify. The Parliament will ratify it. But why do you do such things? Why should the Government act like that?

After all, we are a democracy and we should know how to do things in a democracy. We have Parliament. I consider our Parliament to be a vibrant one. Why do you bypass Parliament? Why do you take decisions without consultations in Parliament?

Sir, finally, I would like to advise the Government to understand that the banks constitute the central nerve system of modern economy. It is not said by me. It was said by the great Lenin. Because he is Lenin, a communist, do not dismiss this statement.

Don't dismiss the statement because the banks constitute the central nerve system of modern economy. Don't weaken the central never system, don't weaken the banking sector because the economy will collapse.

The former Prime Minister, Dr. Manmohan Singh and former Finance Minister, Mr. Pranab Mukherjee when they were in this House, they claimed that the fundamentals of Indian economy were strong. When we asked what the fundamentals of Indian economy are, they identified the public sector banks particularly.

Now this Government should not try to weaken the banking sector in the name of sab ka saath, sab ka vikas, and finally you want to serve the interests of corporate houses and big big business houses. That is what is happening in this country.

So, Sir, we are left with fait accompli, Parliament has to ratify this, but these are the concerns, my Party thinks, the Government will have to take note of and consider.

With these words, I conclude. Thank you.

AIBEA THIS DAY JULY 21	
1918	Com. Raj Bahaddur Gaur, Former President, Andhra Pradesh Bank Employees Federation & All India Bank Deposit Collectors Association (date of birth)
1969	AIBEA files petition in Supreme Court in defence of Nationalisation of Banks.

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