AIBEA's Banking News

3,4,5,6,7 FEBRUARY 2020

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Bad Loans in Banks on the increase. We want recovery but Government wants Resolution - AIBEA

RESOLUTIONS UNDER IBC so far

	Loan given	Resolved at	Sacrifice	favouring
Essar	54,000 cr	42,000 cr	23 %	Arcelor Mittal
Bhushan Steel	57,505 cr	35,571 cr	38 %	Tata
Jyothi Structures	8,179 cr	3,691 cr	55 %	High networth individulas
Electrosteel Steels	13,958 cr	5,320 cr	62 %	Vedanta
Monnet Ispat	11,478 cr	2,892 cr	75 %	JSW
Alok Industry	30,200 cr	5,052 cr	83 %	Reliance
In 6 accounts	1,75,870 cr	94,526 cr	46 %	

Under process

	Loan given	
Bhushan Power & Steel	47,887 cr	With NCLAT
Amtex Auto	12,819 cr	Resolution failed
Era Infra	15,050 cr	Under CIRB
JP Infra	24,131 cr	Under CIRB
Lanco Infra	53,158 cr	Liquidation
ABG Shipyard	19,316 cr	Liquidation
	172,361 cr	

Almost every fifth Jan Dhan account 'inoperative'

Our Bureau New Delhi | February 06, 2020

Of 37.87 crore accounts as on Jan 15, 30.78 crore or 81.3% are operative

The number of inoperative accounts under the Pradhan Mantri Jan Dhan (PMJDY) scheme has halved to one in five as on date, according to government data.

As on January 15, the total number of PMJDY accounts opened was 37.87 crore, of which 30.78 crore, or 81.3 per cent, are operative. The share of inoperative ***vis-a-vis*** total accounts, which was 40 per cent in March 2017, declined to over 18 per cent as on January 15 this year. The maximum number of inoperative accounts are in Uttar Pradesh, Bihar and Madhya Pradesh.

Dormant accounts

The Government data do not throw light on the remaining over 7-crore inoperative accounts: Have they been closed or has there there been no transaction after a certain period? According to the Reserve Bank of India's Master Circular of July 1, 2015 on customer service in banks, savings accounts (including PMJDY accounts) are treated as inoperative/dormant if there has been no transaction in the account for over two years.

Also, information on the number of closed PMJDY accounts is not centrally maintained. However, accounts monitored by the Department of Financial Services under the Finance Ministry show that the number of these accounts has increased every year since the launch of the scheme.

During and post-demonetisation, it was alleged that huge sums were withdrawn from many of these accounts. Post demonetisation, the percentage of inoperative accounts reached 40 per cent, but has since been declining.

Shift in focus

Launched in 2014. PMJDY envisages universal access to banking facilities with at least one basic bank account for every household, financial literacy, access to credit, insurance and pension. To give impetus to the government's financial inclusion initiatives, the PMJDY programme has been extended beyond 2018 with the focus of account opening shifting from 'every household' to 'every un-banked adult'.

Also, to make the scheme more attractive, it was decided to double the overdraft limit to ☐10,000. There were no conditions attached for those with active PMJDY accounts availing themselves of the OD facility up to ☐2,000. Age limit was revised from 18-60 years to 18-65 years.

Also, accident insurance cover for new RuPay card holders was raised to ☐2 lakh from ☐1 lakh for PMJDY accounts opened after August 28, 2018. Under the scheme, as on January 22, about 29.86 crore RuPay cards have been issued to PMJDY account-holders.

Jan Dhan accounts

(in lakh)

	Total	Operative accounts	Inoperative as % of total
All India	**3,786.72**	**3,078.01**	**18.71**
Key States			
Uttar Pradesh	604.86	467.74	23
Bihar	432.03	377.29	12.67
West Bengal	360.6	318.61	11.64
Madhya Pradesh	323.71	257.1	20.57
Maharashtra	267.12	199.93	25.15
Rajasthan	266.26	221.48	16.81
Assam	161.89	143.75	11.2
Odisha	155.16	127.86	17.59
Karnataka	148.4	117.49	20.82
Tamil Nadu	106.15	82.82	21.97

Budget lays roadmap to boost purchasing power of people

Rajiv Sabharwal | February 05, 2020

THE HINDU BusinessLine

The Budget focusses on lifting people out of poverty and making businesses more innovative and healthy

Woven around the themes of aspirational India to boost standard of living, economic development for all and building a humane and compassionate society, Budget 2020-21 laid down a coherent roadmap to boost the income and purchasing power of the people of India. Drafted on the lines of Economic Survey 2019-20, Finance Minister Nirmala Sitharaman's aim to make businesses more innovative, healthy and solvent with the use of technology and digitisation will help boost growth, wealth creation and consumption in the economy.

Also termed as the 'Aspirational Budget', Budget 2020-21 focusses on lifting people out of poverty and encouraging employment.

Calling entrepreneurship the strength of India, the proposal to set up an investment clearance cell to provide end-to-end facilitation, support and clearance at the State level, the formulation of a National Logistics Policy to make MSMEs more competitive and deferring the tax burden on employees due to tax on Employee Stock Options will further help boost entrepreneurship and investments in the sector.

To attract growth capital from global investors, the government has taken various initiatives and introduced policies that would unleash the entrepreneurial spirit of citizens, in India and abroad. Some of the major reforms announced are throwing open select government securities for non-resident investors, increasing the FPI limit to 15 per cent, creation of a debt ETF, app based loan products for MSMEs, and amending the Banking Regulation Act to strengthen co-op banks.

Closer home, for the NBFC sector, reducing the loan size and limit for NBFCs to be eligible for debt recovery under SARFAESI will help NBFCs to be treated at par with banks and, thereby, help improve the rate of recoveries and NPAs. Enhancing of the partial credit guarantee scheme will further help in providing much-needed relief and ease the liquidity crunch in the sector.

Recognising that analytics, Internet of Things and AI are the change-makers of the world, the government's proposal to build data centre parks throughout the country will provide an extra push to the 'Digital India' initiative. India Inc can expect more technological innovations and increase in digital delivery of services due to the impetus provided to digitisation, machine learning, and robotics.

Sitharaman's aim to improve 'ease of doing business' and 'ease of living for farmers' will help mitigate farmers' distress and promote rural development for economic growth. The proposal to set up rail and air services for transportation of perishable goods, and using barren land to set up solar power generation units will further support the government's vision to create sustainable farming and income avenues for millions of farmers. Investment in agricultural infrastructure and supporting private entrepreneurships to add value to the farmer's produce will ensure economies of scale for farmers over the years to come.

For consumers, the big bonus in the Budget has come in the form of revising the rates of personal income tax. The government's proposed new tax regime for individuals will help increase liquidity in the hands of the common man. This will naturally help raise overall expenditure and consumption, thus giving the much-needed push to our economy.

Finally, with national security and 'ease of living' being the top priority of this Budget, the aim is to move towards a more holistic, content and happy economy where wealth creators and risk taking entrepreneurs would be respected. This push towards more inclusive growth with a visible increase in expenditure on social sector schemes to promote rural growth and entrepreneurship will be a good benchmark to map the success of the country in the year to come.

Budget disappoints global financial majors

Ashish Rukhaiyar
MUMBAI, FEBRUARY 05, 2020
THE HINDU

Growth may stay muted on lack of major stimulus; progress on privatisation, key

The Union Budget presented last week has received a rather subdued response from global financial majors who feel that the it did not offer any major stimulus, as a result of which economic growth may remain muted longer than expected.

They also feel that execution would be the key challenge as the government has unveiled an ambitious privatisation plan, which faces many headwinds.

Bank of America Merrill Lynch (BofAML) said the markets will shift focus to earnings, among other things, as the Budget did not offer any major stimulus.

“We think the markets’ disappointment with the Budget will last a short while, post which MSCI India should continue to move with EM [emerging markets],” stated a report by BofAML, while highlighting the fact that the relatively modest cut in tax collections implied that the stimulatory impact of the measure on consumption or demand is likely to be small.

On February 1, when the Budget was presented, the benchmark Sensex lost nearly 1,100 points in intraday trading though it has recouped the losses in the sessions thereafter.

Credit Suisse’s view is that “growth may remain subdued for longer than market expectation, and that lower interest rates remain a necessary condition for growth revival.” It added the Budget had provided no stimulus to revive rural consumption — a key factor for the fast moving consumer goods (FMCG) sector — as the total budgeted rural expenditure is largely flat year-on-year.

Thus, there is no stimulus for improving FMCG rural growth which is at a 15-year low, it said.

Goldman Sachs said execution would be key for the government due to an ‘ambitious privatisation plan.’

“The execution of privatisation plans was weak in FY20, and has historically been the case... The intent on privatisation is clear, and we think the plan to sell a part of its holding in Life Insurance Corporation (LIC) is a welcome move — what markets are looking for is greater progress in implementation,” stated the report by Goldman Sachs.

In a similar context, BofAML believes the government's divestment target implies full privatisation of several state-owned entities, which could face issues such as the limited capacity of the market and the government to manage such large offerings along with the complexity of each potential deal.

Cooperative banks to come under Reserve Bank regulation

SPECIAL CORRESPONDENT
NEW DELHI, FEBRUARY 05, 2020
THE HINDU

Regulator gets powers to supersede board of any such bank in financial distress

In the wake of the recent Punjab & Maharashtra Cooperative (PMC) Bank crisis, the Union Cabinet on Wednesday approved amendments to the Banking Regulation Act to bring 1,540 cooperative banks under the Reserve Bank of India (RBI) regulation.

Cooperative banks have 8.6 lakh account holders, with a total deposit of about ☐5 lakh crore.

Union Minister Prakash Javadekar told reporters that administrative matters would continue to be under the Registrar, Cooperative. However, cooperative banks would be regulated under the RBI's banking guidelines. Their auditing would also be done as per its norms.

Qualifications would be laid down for appointments, including that of Chief Executive Officers. Prior permission from the RBI would be required for the appointment of key positions. The regulator would deal with issues such as loan waivers.

The RBI would also have powers to supersede the board of any cooperative bank in financial distress.

These measures would be implemented in a phased manner, said Mr. Javadekar.

The proposed amendments, along with the government's decision to increase the insurance cover on bank deposits from ☐1 lakh to ☐5 lakh, have been brought to strengthen the financial stability of cooperative banks and boost public confidence in the banking system.

In the PMC Bank case, the RBI had to step in last year after massive irregularities in its loan accounts were detected. The regulator had to place a withdrawal limit for account holders, which led to a major public strife and protests by them.

The bank had allegedly loaned about ☐6,500 crore to the Housing Development & Infrastructure Limited, amounting to more than 73% of its overall exposure, which was not repaid. It is alleged that over 21,000 fake accounts were created to conceal the bad loans.

The Enforcement Directorate is conducting a money laundering probe into the allegations.

LIC IPO will certainly happen next year: Economic Affairs secretary

SPECIAL CORRESPONDENT
NEW DELHI, FEBRUARY 06, 2020
THE HINDU

Mischievous people are terming proposed listing as privatisation, says Atanu Chakraborty

Some "mischievous" people are terming the proposed listing of Life Insurance Corporation (LIC) "privatisation", said Atanu Chakraborty, secretary of the Department of Economic Affairs.

He said the Centre needed to work to frame the narrative before the initial public offer (IPO), which it hoped to complete during the next fiscal year.

He was speaking at a post-Budget interaction with industry leaders organised by the Confederation of Indian Industry on Wednesday. "LIC will certainly happen next year," he said in response to a query about timelines for the partial disinvestment announced in the Union Budget speech last week. "It takes about eight to nine months of preparations for its accounts and what kind of legal tweakings that need to be done."

The Centre has indicated that it may need to push through an amendment in the LIC Act, 1956 before the stake sale. Currently, the government owns 100% of LIC, the country's largest insurer. Opposition parties have objected to the divestment plan, while LIC's employee unions have claimed that it would be "against national interest."

"This is certainly a very high value item... Some amount of narrative in the public space would need to be done because some people have, can I use the word mischievous, have put it as a privatisation of LIC," said Mr. Chakraborty.

He noted that it was time for citizens to be able to get a "richly deserved share" in the company's wealth if they chose to invest in it, adding that the IPO would bring more discipline to the company and bring much-needed depth to the market.

"I hope we should be able to finish it by March 31, 2021. Money of course will come through, that's less of an issue. This is a substantial chunk; that notwithstanding, bringing to public space this kind of an organisation certainly brings much more value," he said.

Government working on proposal to allow 100 pc FDI in Air India

NEW DELHI: ECONOMIC TIMES

The government is working on a proposal to allow 100 per cent foreign direct investment in Air India as it moves ahead with disinvestment of the national carrier, according to sources.

Currently, FDI in Air India is capped at 49 per cent through the government approval route while 100 per cent FDI is permitted in scheduled domestic carriers, subject to certain conditions, including that it would not be applicable for overseas airlines.

Allowing 100 per cent FDI in Air India would allow Non-Resident Indians (NRIs) to invest up to 100 per cent. Currently, they can acquire only 49 per cent in the national carrier.

Sources told PTI that the civil aviation ministry has asked the Department for Promotion of Industry and Internal Trade (DPIIT) to remove the clause which restricts FDI in Air India to 49 per cent.

A draft note has been circulated on the issue seeking comments from different ministries, they added.

In the case of scheduled airlines, 49 per cent FDI is permitted through automatic approval route and any such investment beyond that level requires approval.

India's GDP is pretty low; V-shaped turnaround unlikely: Uday Kotak

"Reduction of corporate tax rate is a first supply side move to get private investment back; for many years, India was disproportionally dependent on consumption driving economic growth and not investment. On demand side, we need to get more confidence," says Kotak

Anand Adhikari New Delhi February 4, 2020

Uday Kotak, MD & CEO, Kotak Mahindra Bank

In an interview with *Business Today*'s Anand Adhikari, **Uday Kotak, MD & CEO** of the fastest growing private sector bank Kotak Mahindra Bank talks about the structural changes that are taking place in the global economy, challenges in sectors such as real estate and financial services, clean-up drive in the system and the economic outlook, going forward. Edited excerpts:

Business Today: Which way is the economy headed and how do we trigger a revival?

Uday Kotak: Indian economy is going through a significant transition in terms of how the country develops itself for the future, whereas on the global front, we are seeing trends completely contrary to what was predicted. In 2008-09, the most important global trend predicted was the movement of interest rates and inflation. US Federal Reserve Chairman Ben Bernanke intervened in a big way by flooding the world with helicopter money. Had you talked to any economist then, he would have said that the outcome of it after 5-10 years would be higher inflation. Comparisons to world wars were drawn as inflation had spiked after World War-II. As a result, most global central bankers over the last two-three years were fighting a battle on inflation, which was not needed. In 2017-18, global central bankers moved interest rates higher, especially in the US. Even India did the same in 2016-17. We were fighting expectations of inflation and the interest rates moved up. People expected inflation to reduce. The major issue was central banks in many countries maintaining high real interest rates. The correction really began in calendar year 2019. That was when people realised that inflation projections were much higher than where it should be as per the state of the economy. That put pressure on the economy. Most people were talking about the US 10-year yield between 3-4 per cent. It is 1.75 per cent. The 2019 has been a year where something has fundamentally and structurally changed in the world where the big bad animal called 'inflation' despite easy money, easy liquidity did not come down. All traditional economists seem to have missed that something has structurally changed in the world. Secondly, the world (also India) in many ways is going through a fundamental behavioural change in the human life cycle, which is changing the pattern of the supply and demand. We all were brought up in a world where owning a home was a big deal. But, we are seeing an emerging structural change of taking a home on rent and moving places between cities. A similar pattern is emerging in owning a car. Do I need to own a car?

Homes and cars are important to economic growth of a country. While these changes are happening, the jury is out whether these are structural or cyclical ones. That said, suddenly, the economy looks very different.

Besides, a different kind of political leadership is emerging in many countries starting with the US president Donald Trump. He is not afraid of saying that he is ready to protect the interest of the country by dumping China. Therefore, a multilateral liberal world for which we were ready and were used to post the Second World War could be staring at a change. Probably, we are in the middle of that change.

BT: How is the India situation?

Uday Kotak: India is dealing with some fundamental changes. Inflation rate in the country between 2018 and 2019 turned out to be much lower than what was projected by economists. But there are different parts of stickiness in an economy that used to hide normal interest rates. So, savers are not used to lower rates. They are used to deposit rates of 7-8 per cent. There is an important dimension to that if you look at government savings schemes. The yield of five-year Indian government securities is offering 6.2 per cent. The same central government for small savings is paying 7.9 per cent for five years. Why would a sovereign pay 170 basis points more for the same instrument? The argument is savers are not used to lower rates. If they are not used to it, how will they accept dramatically lower small deposit rates?

There is a difference of 70-80 basis points between bank deposit rates and one-year bank certificate of deposit (CD). Therefore, the wholesale deposit is much higher than the retail deposit. You are now beginning to see important changes in societal behaviour and important objectives of states versus free market pricing not necessarily on the same page. If it was purely a free market pricing, you would have seen lending rates 100-150 bps lower.

BT: How the policymakers should react to structural issues?

Uday Kotak: The US has been the boldest country in the history in terms of free market. The country that has been using the market the way they want is the China. India has to find a balance. It is not an easy balance. How easy is it for small savers to accept lower rates in small savings from 8 per cent to 5.50 per cent? If inflation is low, the rates will go down even more. Are we ready to have a free market movement? There will come a time when you say that the country cannot let it go a lot lower. So, one of the issues is how ready are we to accept lower rates? My personal view is that we should let the rates go down steadily in a non-disruptive manner. This can help in getting the growth back.

BT: Recently, Moody's has changed its outlook on India. Your comments.

Uday Kotak: We need to spur the private investment. The reduction of corporate tax rate is a first supply side move to get the private investment back. For many years, India was disproportionally dependent on consumption driving the economic growth and not investment. Whatever investment was happening was from the government and not the private sector, especially over the last few years. We need to get back the private investments.

On the demand side, we need to get more confidence. We are dealing with a country that is coming to terms with a different way of doing business from what it has been in its history. I give the analogy of dirty white shirts. Parts of Indian businesses were like dirty white shirts. India is moving towards a clean white shirt. In the transition, we have to ensure that we stay careful and don't tear the shirt. We should be careful that the wash is clearly done.

BT: The transition of cleaning up the system is also impacting the real economy?

Uday Kotak: Inevitably. We have to keep in mind the power of digital. All filing in India are digital. System picks up delays and violations. Same thing is for the taxation. So much data is getting digitalised. It doesn't require human intervention to detect that something is amiss.

In India, we are seeing a significant sectoral consolidation. Airlines such as Kingfisher, Sahara, Deccan and Jet Airways are out of business. Telecom is a well-known story where we are down to three. I see similar challenges emerging in two other sectors - real estate and financial services sector. Consolidation can happen in two ways. First, through combinations where two people get together. Second is through mortality. Lot of India's consolidation has happened through mortality. In the Indian business history, lot of entrepreneurs didn't really think about risk-adjusted cost of capital. You need to evaluate the risk and the return on their capital. It was something Indian businesses were not applying rigorously to its process.

BT: What are the things Kotak Group is doing right as you have the lowest NPAs?

Uday Kotak: As individuals, we should follow common sense. In 2009, immediately after the global banking crisis, I was asked a question as to how a good bank should look like. I said a good bank must have three human qualities. First is prudence, that is, no excessive leverage. Second is simplicity, that is, no complicated exotic products like derivatives and third is humility, that is, the bankers not considering them as masters of the universe. As long as we keep these three principles at the core of who we are and when we run a financial institution it should be fine.

BT: Have we bottomed out in terms of the GDP fall?

Uday Kotak: Most economists are predicting a 5 per cent GDP level for the full year. The turnaround, in my view, will happen but it won't be a V-shaped turn. It will be a gradual turn. I would like to believe that the next Diwali would be much better than the Diwali that just went. I see change happening quarter by quarter. We are right now in the lower end of where I see India's GDP to be. I personally feel that it is at a pretty low level of GDP.

BT: When do you think the corporate lending picking up?

Uday Kotak: We need animal spirit. You see some capacity building happening and some risk-taking. The slowdown in the economy has hurt demand. If truck sales drop, the entire chain gets impacted. Between 2011 and 2017, the real sector problems were hurting the financial sector. Take, for instance, the infrastructure companies and power companies troubling the financial sector. Now the financial sectors are also having a ripple effect. The issues such as IL&FS and DHFL have two-way challenges - the real estate and financial sector challenges.

BT: The government has initiated big mergers in the PSB space by focussing on 10 large and regional banks from over two dozen PSBs. What does it mean for the private sector?

Uday Kotak: Consolidation is a good thing. It is an inevitable process. We have seen in airlines, telecom and we will see it in real estate and financial sector. Ultimately, the true consolidation is when it is ownership neutral. It is a good step. This government is testing the way with Air India and BPCL etc and see how it goes. In general, the private sector share will grow. Today, it is about 32-33 per cent and PSBs hold 67-68 per cent share. I see a market share of private and public at 50: 50 per cent.

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