AIRRBOF News Letter June, 2016

Sky is not the limit, we cover it...

The Voice of All India RRB Officers' Federation

Vol - XXIII SILIGURI No. 06

EDITORIAL

CONSOLIDATION OF BANKS

The idea that an economy of India's size cannot aspire for higher growth without global-scale financial institutions to bankroll it, has led Indian governments to toy with the idea of bank consolidation every now and then. But this has translated into little action. This is why it is good to see the State Bank of India moot the proposal to consolidate five of its subsidiaries (the State Banks of Bikaner and Jaipur, Hyderabad, Mysore, Patiala and Travancore) as well as the Bharatiya Mahila Bank into itself. *Prima facie*, there appears to be a sound business case for the merger. Apart from a balance sheet size of Rs. 37 lakh crore that will catapult the SBI into the league of top 50 global banks, synergies in business and treasury operations, branch rationalisation and the ability to access cheaper funds are expected to reduce the merged entity's costs by a good 100 basis points. But the success of the merger will depend on the SBI's ability to win over protesting unions and negotiate tricky integration issues.

While the SBI merger is desirable, the Centre should be wary of applying this as a cookie-cutter solution to all future consolidation moves involving public sector banks (PSBs). While proponents of the big Bank theory argue that banks with larger balance sheets are more efficient users of capital, are better at recoveries and resilient to business cycles, the ongoing crisis in PSBs suggests that a more nuanced approach to bank mergers is necessary.

Latest March quarter numbers reiterate that PSB giants such as the Punjab National Bank or Union Bank of India (gross NPAs of 12.9 and 8.7 per cent respectively) have proved no better managers of asset quality than the much smaller Dena Bank or Vijaya Bank (9.9 and 6.6 per cent). As poor lending decisions and concentrated exposure to large corporates are at the root of the bad loan mess, the strength of a bank's credit appraisal and risk control systems contribute far more to capital efficiency and resilience than mere balance-sheet size. While the forced takeover of a troubled bank by a stronger peer has been the quick-fix solution to stave off bank failures in the past, it may not work in a scenario where almost all PSBs are weighed down by asset quality issues. Forcing big banks that have made substantial progress in their clean-up (SBI and Bank of Baroda for instance) to take-over distressed rivals would be retrograde. The universal banking model is also under fire from digital disruption and the advent of small finance banks, payment banks and NBFCs with niche models.

These factors suggest that for public confidence in PSBs to be shored up, an overhaul of their risk control and governance structures should precede consolidation efforts. Consolidation, when taken up, should take individual Bank Boards into confidence and need to make strategic sense. Mergers that focus on similar lending segments to create larger banks focused on, say, SMEs, retail loans or project finance could well be the way forward.

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EXCERPTS FROM AIRRBOF CIRCULARS

Circular # 33:2016 2nd May 2016

1ST TRIENNIAL CONFERENCE OF AIRRBPF HELD AT LUCKNOW ON 1ST MAY, 2016 – REMAINED ROARING SUCCESS

All India RRB Pensioners' Federation (AIRRBPF) is the Apex Level Organisation of Retirees & Pensioners of RRBs belonging to all categories of officers & employees. Since its birth with an ad-hoc committee in the 10th Triennial Conference held at Chandrapur in January, 2015, the newly formed AIRRBPF in the short tenure make big stride to enroll new affiliates and enlist members from retirees of all cadres.

In order to hold the 1st Triennial Conference it was decided in the last Central Committee Meeting held at Bhubaneswar to entrust the task to Gramin Bank of Aryavart Pensioners' Association. True to its tradition the host unit made splendid arrangement for the Meeting. The Banquet Hall of Bandhan Hotel was tastefully decorated with banners & festoons. The hall was jam packed from early morning.

Several dignitaries were ushered in to the dias by organisers. The galaxy of leaders of UFBU, AIBOC, MLA & AIRRBOF adorned the dias. With the lighting of traditional lamp by Shri Laxmi Kant Bajpayee, MLA and a distinguished public figure the conference got underway. Com. A.P. Singh, the legendary leader of AIBOC, Com. S.K. Bhattacharjee, GS, AIRRBOF made the audience spell bound by their detailed narrative of recent events and future road map. Com. S.K. Bhattacharjee spoke at length during the delegate session. Shri L.K. Bajpayee very rightly pointed out the right of RRB officers & employees to pension and expressed his resolve to extend all support. Welcome address was rendered by Com. B.P. Singh and he ably compared the programme. The open session ended with rendering of vote of thanks by Com. Amar Dey and with chorus of National song.

In the post lunch delegate session, the report of the General Secretary was placed with full details. The Statement of Accounts was also placed by the General Secretary. Both the report and the Accounts was passed unanimously. A new team with following principal office bearers for the next triennial term was elected unanimously:

(i) Chairman – Com. Nikhilesh Mishra (Bangia)
(ii) President – Com. Amar Kumar Dey (Paschimbanga)
(iii) General Secretary – Com. B.P. Singh (Aryavart)
(iv) Treasurer – Com. R.K. Nigam (Aryavart)

The names of other office bearers shall be circulated by AIRRBPF in its circular.

AIRRBOF wishes the new team all success and pledge full support to AIRRBPF.

Circular # 34:2016 20th May 2016

MEETING OF COORDINATING BODY OF OFFICERS' ASSOCIATIONS IN RRBS SPONSORED BY BANK OF INDIA
FOLLOWED BY MEETING WITH GENERAL MANAGER, BANK OF INDIA

In accordance with the existing system of holding Meeting of Coordinating Body Meeting, took place on 18th May, 2016 morning at the office of Bank of India Officers' Association (Mumbai & Goa) in Mumbai. In the absence of Com. Harvinder Singh, General Secretary, FOBOIOA who could not come due to indisposition, Com. M.B. Tripathi, General Secretary, BOI Officers' Association (Mumbai & Goa) presided over the Meeting. Com. R.G. Makhija, Convenor of the Coordinating Body and President, AIRRBOF briefed the participants from Officers' Association in BOI sponsored RRBs. Com. S.K. Bhattacharjee critically analysed the Charter of Demands prepared by the Coordinating Body. The following issues were discussed and analysed to be taken up with General Manager (Ps & RRBs):

1. Improvement in Loan Facilities to officers of RRBs.
2. Framing of Transfer Policy on the guidelines issued by NABARD after discussion with majority Officers' Association.
3. SC/ST Forum should not be allowed to raise Trade Union issues with Management of RRBs and they should be restricted to the welfare activity of the SC/ST only.
4. Arrangement of transfer of balance with EPFO maintained by erstwhile RRBs to the transferee RRB.
5. Prohibiting Management of Jharkhand Gramin Bank to withdraw the draconian policy of imposition of penalty for purported non-performance of officers.
6. Posting of not more than of one officer from SC/ST category in HRD of HO only as Liason officer in accordance with DFS guidelines and transfer of excess Liason officers in VKGB.
7. Arrangement of training for officers at Bank of India training facilities instead of NABARD.
8. Rotation of all officers posted in one location for more than 3 years in case of transfer & placement.
9. Promotion of officers in RRBs from Scale IV from Scale V.

During the course of Meeting our strategies were discussed and decided. In the afternoon delegation comprising of President, AIRRBOF & Convenor, Coordinating Body, General Secretary, AIRRBOF, General Secretary, BOI Officers' Association and General Secretaries of Officers' Associations of RRBs sponsored by Bank of India, meet Shri S. Palanivel, General Manager (Ps & RRBs). The delegation was warmly received. In the introductory remark. General Secretary, AIRRBOF, Com. Bhattacharjee pointed out that with the involvement of members of AIRRBOF/ AIBOC affiliated Associations in RRBs the performance of RRBs are improving. General Manager shared that performance of Jharkhand Gramin Bank is sub-average. We mentioned that the attitude of the Chairman, his anti-employee stand and threat to impose pecuniary penalty had created an atmosphere of demotivation and it is reflected in performance. General Manager specifically advised us that he shall take care of the Chairman and ensure his erratic and anti employee attitude is changed. In regard to excesses done by Chairman of VKGB in the matter of SC/ST Welfare Association also General Manager Shri Palanivel assured to suitably counsel the Chairman.

After hour long discussion it was decided that in regard to the nine point issues following action point shall be taken:

i) Coordinating Body shall submit suggestion for improvement in all staff Loan like Housing, Conveyance OD, etc. and General Manager shall take appropriate step to issue uniform guidelines to all RRBs for substantial improvement in the loan schemes.

ii) An attempt shall be made to devise uniform Transfer Policy in RRBs based on NABARD guideline after discussion between Management and officers Association at Bank Level.

iii) Rotation of officers continuing in present position for more than 3 years shall be ensured and Chairmen of RRBs shall be suitably advised.

iv) Promotion from Scale IV to Scale V shall be looked into after formal notification of RRB Appointment and Promotion Rules by GOI and its official publication in Gazette of India (Extraordinary).

v) General Manager advised us to provide copy of guidelines of GOI in regard to providing training to RRB Officers at Sponsor Bank facilities.

vi) General Manager agreed to take suitable action in consultation with Chairmen of RRBs to ensure transfer of balance of PF from transferor RRB to transferee RRB and payment of Triennial Benefits in time bound manner.

The meeting turned to be successful and we shall follow up the matter.

In the evening, President, AIRRBOF, GS, AIRRBOF and Com. Ashok Prasad, GS, Jharkhand Gramin Bank Officers' Association visited Data Centre at Navi Mumbai and discussed with the officers on deputation there. The problems faced by the officers were taken stock of. It was decided that AIRRBOF shall take up with Bank of India, HO all issues after assimilation of the same by Convenor, Coordinating Body. The visit served as morale booster for those officers at deputation in Data Centre.

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Circular # 35:2016 20th May 2016

BUSINESS ADVISORY COMMITTEE IN
REGIONAL RURAL BANKS HAVING SUB-PAR PERFORMANCE

NABARD vide the Circular No. 54/IDD-06/2016 dated 22nd March, 2016 advised 16 RRBs for setting up of Business Advisory Committee in Regional Rural Banks having sub-par performance.

President and General Secretary, AIRRBOF met Shri U.S. Saha, Chief General Manager(IDD) & Shri N.P. Mahapatra, General Manager(IDD) and discussed host of issues including Business Advisory Committee. We have written the attached letter to NABARD which we reproduce for your information & record.

BUSINESS ADVISORY COMMITTEE AT RRB LEVEL & APEX LEVEL – INVOLVEMENT OF OFFICERS' ASSOCIATION & EMPLOYEES UNIONS

We appreciate the idea. However, we observe with great concern that the Business advisory Committee shall not include the representatives of the Officers' Organisation and Employees Unions in RRBs who are one of the greatest stake holders of the RRB. We request you to immediately revise the circular and advise Chairmen of RRBs to include at least one representative of all Officers' Organisations & Employees Unions in the respective RRB.

We also deem it appropriate to request you to form one Apex Business Monitoring Committee for all sub-par performance RRBs at NABARD. The Committee shall include Chairmen of RRBs, Apex Level Trade Unions in RRBs, officials of IDD, NABARD the General Manager of the concerned Sponsor Bank. The Committee should meet invariably at the last month of one quarter to analyse the performance of the quarter as well as plan for next quarter.

We trust that involvement of the representative of Trade Unions in Business Advising Committee shall serve as motivator and the Trade Unions shall be able to play proactive role in improvement in the performance of RRBs.

We look forward to your early action.

Circular # 36:2016 21st May 2016

GUEST HOUSE AT KOLKATA MAINTAINED BY ASSOCIATION OF OFFICERS OF PASCHIM BANGA GRAMIN BANK

We have been informed by General Secretary, Association of Officers of Paschim Banga Gramin Bank that they have started a Guest House at Howrah / Kolkata on and from 6th May, 2016. Members of the affiliates of the Federation may availed the facility. We reproduce their communication for information & booking is required. You may contact Shri Srijan Kumar Pal, General Secretary of the Association directly on mobile no. 094340-42616.

"Guest House is very close to Howrah Station and Kolkata.

All members including retired members of our Association may avail this Guest House (AC) at a nominal cost of Rs 600/- per day. Outsiders may also avail this facility at a cost of Rs 800/- per day. (Car parking facility also available).

We have sent Booking slip to our Regional Committees. Members are requested to contact respective Regional Committee to avail such facility nearer to Kolkata in their need.

ADDRESS:

110/2 Sashtri N. N. Ganguly Road,
BATORE, HOWRAH 4,
Sailobani Apartment,
Ground Floor, Flat No 1.

Location map is also enclosed for your information & guidance".

Circular # 37:2016 31st May 2016

61ST MEETING OF THE CENTRAL COMMITTEE HELD AT RAIPUR ON 28TH MAY, 2016

The 61st Meeting of the Central Committee of our Federation was held in most splendid manner in the Board Room of Hotel Mahindra, Raipur on 28th May, 2016.

The Meeting was presided over by Com. R.G. Makhija, President of the Federation. Welcome address was rendered by Com. S.C. Kashyap and the participants were felicitated by offering flower bouquet by the Comrades of Officers' Association of Chattisgarh Rajya Gramin Bank. Thereafter, agenda wise discussion was taken up.

After approval of the proceeding of the last Central Committee Meeting held on 29th November, 2015 at Bhubaneswar, General Secretary presented detailed report in writing incorporating all important development that had taken place in the intervening period. Several office bearers and Central Committee members viz. Srijan Pal, M.V. Karer, B.L. Khandelwal, M.K. Bhowmik, P. Madhusudan, Rajesh Kori & others deliberated at length on different issues. After threadbare discussion the following decisions were taken:

i) Federation shall take up in UFBU Meeting effective programme for enforcing Pension in all the RRBs.

ii) Seminars shall be organised at important centres to make officers & employees aware of the intricacies of implementation of Pension and the ingredients of the Pension Corpus. In order to implement the programme effectively a Seminar Committee conserving of following members has been constituted:

i) Com. Srijan Pal	–	Chairman
ii) Com. M.V. Karer	–	Member
iii) Com. P. Madhusudhan	–	Member
iv) Com. A.K. Prasad	–	Member
v) Com. S.K. Bhattacharjee	–	Convenor

iii) Federation shall take up with Reserve Bank/GOI to reduce Priority Sector lending target of RRBs from the level of 75% to 40% like other Commercial Banks. Efforts shall be made to ensure inclusion of name of RRBs in RBI portal on different schemes so that RRBs can access funds from Govt. Depts.

iv) Federation shall take up with GOI, DFS to amend RRB Recruitment & Promotion Rules to restrict direct recruitment upto Scale II that too for specialist officers only. The discrimination in eligibility criteria for promotion between direct recruit and promotee officers which was taken up by Federation should be vigorously followed up.

v) Federation shall take up with GOI, DFS in implementing CVC guidelines on rotation of officers after 3 years in all RRBs.

vi) Federation shall take up with SBI Management so that all RRBs are advised to take Associate Membership of IBA.

vii) Efforts should be made so that vacancies in the cadres of officers are reckoned on prospective basis to take care of natural wastage so that vacancies in officers cadres be minimised.

viii) Severe shortage of officers in Karnataka and Gujarat RRBs be taken up with IBPS/ GOI for special recruitment drive to fill all vacancies.

ix) Federation shall explore to write an open letter to all staff of RRBs on Pension issue explaining all relevant details of Pension scheme and the negative role played by certain Trade Unions in RRBs.

x) Com. Kalpana Ahirwar was nominated as Central Committee Member to head the Women's Wing.

xi) The Statement of A/cs of the Federation for the year 2014 was duly placed in the file for necessary information & approval of the house.

xii) a) Affiliation was granted to Association of Rajasthan Gramin Bank Officers.

Unit – Rajasthan Marudhara Gramin Bank
Unit – Baroda Rajasthan Gramin Bank

b) Affiliation was also granted to Association of Officers of Chattisgarh Rajya Gramin Bank.

xiii) The house resolved to advise all affiliates to clear the dues to Federation by 30th June, 2016.

The Meeting concluded with rendering of vote of thanks by Com. Dhananjay Kumar Singh.

Circular # 38:2016 31st May 2016

1ST TRIENNIAL CONFERENCE OF ASSOCIATION OF OFFICERS OF CHATTISGARH RAJYA GRAMIN BANK HELD AT RAIPUR ON 29TH MAY 2016

The Banquet Hall of Hotel Mahindra, Raipur was jam packed with officers of Chattisgarh Rajya Gramin Bank assembled from all parts of the state of Chattisgarh from early morning. The occasion was the 1st Triennial Conference of the Association.

The Conference was duly inaugurated by lighting of traditional lamp by Com. S.K. Bhattacharjee, General Secretary of the Federation along with President Com. R.G. Makhija.

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Welcome address was rendered by interim General Secretary Com. K.M. Shukla. The two Regional Managers of the Bank who were adorning the dias felicitated the Conference. Com. R.G. Makhija, President of the Federation narrated in detail the National Level Banking Developments as well shared his perception about the imminent struggle of the officers and employees of RRBs for achieving the Pension issue. He placed much stress on organisational development. The star attraction of the Conference was the speech rendered by Com. S.K. Bhattacharjee, General Secretary of the Federation. He acknowledged the long standing contribution of the members of the different units of erstwhile RRBs in the state of Chattisgarh and congratulated the membership for their continued patronage of the Federation. He also placed emphasis on membership enrolment, education and empowerment. He shared in detail the developments in regard to all pending issues and called upon the membership to whole heartedly participate in all organisational call.

The post lunch session was held for conducting the business of the Triennial Conference.

The interim General Secretary, Com. K.M. Shukla placed a brief report which was duly deliberated and approved.

Thereafter, the election to the team of office bearers and committee members was conducted by Com. R.G. Makhija, President, AIRRBOF as Returning Officer. The following principal office bearers were unanimously elected by the house.

Conservator	–	Com. S.M. Pandey
President	–	Com. Ashok Soni
General Secretary	–	Com. K.M. Shukla
Jt. General Secretaries	–	Com. D.S. Kashyap Com. P.K. Soni Com. M.S. Khan
Organising Secretary	–	Com. R.K. Agarwal
Dy. Treasurer	–	Com. Kalpana Ahirwar

The Conference came to an end with rendering of vote of thanks by Com. S.M. Pandey.

PRESS CORNER:

TECH MAHINDRA BECOMES THE 3RD PLAYER TO NIX PAYMENTS BANK PLANS

The Reserve Bank of India's (RBI) move to bring in a new breed of financial service providers in the form of payments banks seems to be coming a cropper. On Tuesday, information technology services firm Tech Mahindra became the third company to withdraw plans to start a payments bank.

"With reference to the earlier communication dated August 20, 2015, about the in-principle approval granted by RBI for setting up a payments bank, Board of Directors of the company have decided that the company will not pursue this opportunity," Tech Mahindra said in a filing to the stock exchange.

The company along with Mahindra Finance had earlier said that the payments bank venture was a natural progression to existing offerings. Tech Mahindra is already in the mobile payment segment and was looking at launching the new payments bank venture in September. It had also handpicked 15-20 people from the banking and financial sector to drive the venture.

Tech M said in a statement said the move comes after, "a well thought through analysis, including business viability, ecosystem leverage and market crowding – all of which makes the project unfeasible for the company at this stage".

Last week, Telenor Financial Services, IDFC Bank and Dilip Shanghvi jointly announced the withdrawal of their efforts to form a payments bank venture. In March, Cholamandalam Distribution Services Ltd had withdrawn its subsidiary, Cholamandalam Distribution Services, from the payments bank race.

While neither of the companies specified reasons, industry experts say the applicants may have overestimated the market potential and under-estimated the scope of the rollout.

For example, on the one hand a payments bank has to further financial inclusion by providing small savings accounts and payments services to low-margin entities such as migrant labourers and low-income households; on the other hand, it cannot undertake lending activities.

After a year-long scrutiny, the RBI had granted 'in-principle' approval to 11 entities, including Aditya Birla Nuvo, Airtel M Commerce Services, Reliance Industries and Vodafone m-pesa to float payment banks.

RBI Deputy Governor SS Mundra, on Monday, hinted at bringing in a system of penalising companies that withdrew after approval. "We would certainly feel a little aggrieved because a lot of effort from the part of the RBI goes into processing these applications. So, having done that, if they don't materialise, that's disappointing," Mundra had said.

"Currently, we don't have a scope of charging a serious processing fee, which can be forfeited if a company withdraws," Mundra added. He, however, said the question of giving out new permits to replace the surrendered ones did not arise as the there was no pre-determined number of payments banks which the regulator had in mind while allocating the permits.

Source – The Hindu Business Line, 25th May, 2016

POSTAL DEPT'S PAYMENTS BANK HAS A HUGE HEAD-START OVER COMPETITORS

A customer base of over 33 crore account-holders and 1.54 lakh touch points across the country could give the proposed payments bank arm of the Department of Posts a huge head-start over the other seven recipients left in the fray to start a payments bank.

According to the plan drawn up by the Postal Department, the India Post Payments Bank (IPPB) will accept demand deposits — savings accounts of up to Rs. 1 lakh and current accounts with special focus on micro, small and medium enterprises, small entrepreneurs/merchants, village panchayats, and self-help groups.

Further, IPPB will offer remittance service, domestic as well as cross-border, with special focus on migrant labourers and low-income households; facilitate payments of various Central/State government and Municipal dues and fees of various universities/educational institutions; Direct Benefits Transfer (DBT) of social security payments of various ministries to beneficiaries; and utility bill payments for electricity, water, telephone, gas, etc.

IPPB will be set up on a lean operating model. According to the Department's blueprint, it will focus on financial inclusion by harnessing low-cost technology to extend access to formal banking, especially in rural areas and among the unbanked and under-banked segments of society.

In the run-up to the setting up of the payments bank, the Department has rolled out Core Banking Solution (CBS) in more than 17,000 post offices.

The CBS facilitates ATM, internet, mobile, and phone banking for post office savings bank (POSB) customers 24×7 along with fund transfers through National Electronic Fund Transfer (NEFT) and Real Time Gross Settlement (RTGS) systems.

IPPB is seeking to provide multiple user interaction channels, including web portal, ATMs, call centres, employee help desks, and SMS gateway, besides the conventional post office counters.

The small savings schemes operated by the Department on behalf of the Finance Ministry include savings accounts, recurring deposits, time deposits, monthly income scheme, public provident fund, National Savings Certificate, Kisan Vikas Patra, Senior Citizens Savings Scheme and Sukanya Samridhi Accounts. As on March-end 2015, the outstanding balance under all schemes put together was Rs. 6.19 lakh crore.

On June 1, the government cleared the proposal of the Department of Posts to set up the IPPB with a corpus of Rs. 800 crore.

It plans to have 650 branches operational by September 2017.

Besides the Department of Posts, the other entities that received RBI's in-principle approval to start payments banks include Aditya Birla Nuvo; Airtel M Commerce Services; Fino Pay Tech; National Securities Depository; Reliance Industries; Vijay Shekhar Sharma (founder of Paytm); and Vodafone m-pesa.

Though three other applicants — Cholamandalam Distribution Services, Dilip Shantilal Shanghvi (founder of Sun Pharmaceutical Industries) and Tech Mahindra — also received the central bank's in-principle approval to start payments bank, they dropped their plans.

Source – The Hindu Business Line 3rd June 2016.

GMS TO EDS: BANKS BOARD BUREAU TO HOLD INTERVIEWS ON JUNE 16-17

Taking the next big step, the newly-constituted Banks Board Bureau (BBB) will conduct interviews for the posts of executive directors on June 16-17.

Interviews will be held in Mumbai to fill 16 Executive Director vacancies in various public sector banks (PSBs), sources said. As many as 49 GMs are in the fray for the ED selection process.

Last month, the Bureau completed the selection process for managing directors in three public sector banks — Indian Overseas Bank, United Bank of India and Bank of Maharashtra.

After the interview on May 16, BBB short-listed three candidates for the post of managing director at these three banks, it is learnt. At some of the bigger PSBs, the posts of second or third executive director currently remain vacant.

BBB, which started functioning on April 1, has been set up to improve governance in PSBs. BBB Chairman Vinod Rai had in mid-April said that selection of senior management personnel to fill in existing and upcoming vacancies will be an immediate priority for the Bureau.

While the Bureau is now focused on selection of senior management personnel, it may, in the coming days, look at helping banks devise strategies with respect to consolidation and raising capital.

The key difference this time round is that the RBI Governor will have no role in the selection process of senior management personnel in banks, as recommendations of the BBB will go to the government, which will then take the final call.

Prior to the BBB, the government had, while overhauling the selection process (after the Syndicate Bank chairman episode), constituted three screening committees of two members each, comprising an RBI Deputy Governor, Financial Services Secretary and four experts. The recommendations of the committees were then processed by an appointments board headed by the RBI Governor.

Source – The Hindu Business Line 3rd June 2016.

THE BIG BANK RETAIL RUSH

There is a sense of déjà vu of the pre-2008 days as banks are once again wooing customers with all kinds of loans, be it personal and auto loans or credit cards. Numbers certainly reveal that banks have changed course radically in the last two years, steadily increasing their share from retail loans. After unceremoniously abandoning personal loans and credit cards in 2008, banks have been growing the portfolio aggressively in recent times.

In the 2016 fiscal, retail loans have grown by a strong 19 per cent, even as growth in corporate loans slipped to an abysmal 2-odd per cent. The over 20 per cent growth in personal and vehicle loans as well as credit card business has led the growth in retail loans. Given tepid investment climate and stretched balance sheets of corporates, it may only seem natural that banks are now growing their retail business to offset the sluggishness in corporate lending.

But if stalled projects and stress in core sectors have spelt doom for banks, then they can also run similar risk from their huge unsecured retail loan portfolio, much like during the financial crisis, when many private banks burnt their fingers. It is time for banks to take stock and exercise caution.

From late 1990s to about 2005-06, retail lending in India boomed, growing over 25 per cent annually due to factors such as increased competition, higher disposable income, growing middle class acceptance of loans etc. One other key factor that led to such a steep growth was banks' perception of low risk in such loans, a theory that was turned on its head during the financial crisis. While among retail loans, housing loans being secured carry lower risk, banks earn thin margins given the intense competition in this segment. It is hence the more profitable unsecured loans such as personal loans and credit cards that banks turned to in the heydays.

In the two fiscals before 2008, retail loans grew by 30-40 per cent, with all segments firing including personal loans and credit cards. But that soon changed. Retail loan growth slipped to a modest 4-5 per cent growth in 2009 and 2010, with private banks taking conscious and tough calls to write off unsecured loans.

For instance, ICICI Bank used the 2009-11 period to aggressively write off its unsecured retail book, which nearly contributed to its downfall during the 2007-08 crisis.

Retail bad loans had shot up to 7-8 per cent, constituting a chunk of its bad loans. Axis Bank's personal and credit cards that were about 20 per cent of its retail portfolio, was down to 10 per cent by 2013-14.

That was two years back. With the pain of excessive exposure to such loans fading away, banks have been upping the ante. But chasing risky unsecured loans is a cause for worry. The credit card business that peaked at about Rs. 30,000 crore in 2008 and almost halved by 2011, has been growing steadily by over 20 per cent annually in the last two years -- now a Rs. 37,000 crore business. Personal loans too have been growing at a fast clip, ending the 2016 fiscal with a 25 per cent increase. Vehicle loans, while secured, are nonetheless riskier than housing loans, as they are offered against a depreciating asset. Surprisingly these loans too have had a splendid run, despite the not-much-to-write-home-about auto sales numbers. One reason for this anomaly could be that buyers are now using more credit than cash to purchase vehicles. This paints an even worrisome picture. Weak economic growth adversely impacting personal incomes, can nudge people to borrow more to keep up their spending, no matter what their credit absorption capacity.

Instead of indiscriminately offering all kinds of loans, banks need to choose caution over profitability. Inadequate origination and monitoring can lead to unexpected slippages in the coming years. What is particularly worrisome is that PSU banks reeling under high levels of stressed corporate loans are now testing the waters, with retail loans. These banks have been late adopters to the usage of credit bureaus, and unless back end processes of underwriting customers are streamlined, adhoc focus on retail can spew problems. Remember, the reason for unnaturally lower delinquencies in unsecured loans has mainly been due to banks' relatively lower expansion into these segments. Delinquencies can soon play catch up, if unbridled growth is not backed by proper credit practices.

Retail lending is just a decade old trend, and Indian banks still lag far behind their western counterparts, in adopting analytics and risk prediction models. It is worrisome enough that banks will have to carry their legacy corporate bad loans for some time to come. If retail delinquencies gather steam, banks would find it way too difficult to drag themselves out of their morass of stressed loans, even if the economic cycle turns.

Source – The Hindu Business Line 6th June 2016.

JAITLEY TO PSBS: CONTINUE FOCUS ON FINANCIAL INCLUSION SCHEMES

Finance Minister Arun Jaitley on Monday advised public sector banks (PSBs) to remain focused on implementing the various financial inclusion schemes even while grappling with the biggest challenge of non-performing assets (NPAs).

Importance of financial inclusion schemes — which are a way for flow of credit — must continue, Jaitley told bankers during his quarterly performance review meeting with chief executives of PSBs here.

Financial inclusion issues remained an important area of discussion at today's meeting. Chief Economic Adviser in the Finance Ministry Arvind Subramanian made a presentation to bankers on the interoperability of the financial inclusion schemes.

Jaitley later told reporters that "existing roadblocks" to interoperability of financial inclusion schemes would soon get "smoothened". Asked about Mudra loans, Jaitley said that banks had last year disbursed Mudra loans to tune of Rs. 1.35 lakh crore, an increase of Rs. 12,000-13,000 crore over the target of Rs. 1.22 lakh crore.

"This year their (banks') target is up 50 per cent and I hope banks will meet this comfortably," Jaitley said.

Meanwhile, Piyush Goyal, Minister of State (Independent charge) for Power, Coal and New and Renewable Energy, made a presentation on the UDAY scheme to bankers at this meeting. "Met heads of all public sector banks on financing of UDAY, power plants, solar rooftops & other renewable projects," Goyal later tweeted.

UDAY is the central government's scheme to revive financially-stressed state electricity distribution utilities. States can join the scheme voluntarily.
Under the scheme, 75 per cent of the distributional utility's debt is taken over the respective State government. Of this, 50 per cent is issued as bonds in the first financial year of the State joining the UDAY scheme and the remaining in the next financial year.

The remaining 25 per cent of the debt at electricity distribution utilities is also refinanced through State-government backed Discom bonds.

Till now, 10 States have joined the scheme and eight have issued bonds worth Rs. 1.11 lakh crore in fiscal 2015-16. In the current fiscal, Goyal expects another Rs. 1.5 to 1.75 lakh crore of bonds to be issued as talks are on with other States to finalise their joining of the scheme.

Prior to the launch of UDAY, electricity distribution utilities had accumulated Rs. 4.37 lakh crore of debt. At today's meeting, SK Pattanayak, Agriculture Secretary, also made a presentation on Fasal Bima Yojana, Jaitley said.

Source – The Hindu Business Line 7th June 2016.

TAMING A NEW ANIMAL

The implementation by banks of the marginal cost of funds-based lending rate (introduced by the Reserve Bank of India two months back) will be reviewed shortly, according to Governor Raghuram Rajan. The timing couldn't be better. Not only has the new system failed in achieving what it intended to — reduce costs for borrowers — it has also created a new set of issues for both, borrowers and banks. Familiar with banks' *modus operandi* of promptly lowering deposit rates in a falling rate cycle, the RBI designed the MCLR to seize these cuts and instantly make them reflect in the banks' cost of funds. This forced banks to lower their benchmark lending rates as soon as MCLR was implemented. But the new framework failed to deliver beyond this.

Transitioning to the new regime has handed old borrowers a raw deal. This has always been an inherent challenge when migrating to a new rate structure. But if the RBI wants banks to move their entire loan book to the new system quickly, it will be imperative to put in a sunset clause. Given the paperwork and costs involved in drawing up new contracts, banks are unlikely to rush to move borrowers into the new regime on their own. The larger issue, however, is to tackle some of the flaws coming to light under the MCLR framework. Even as banks set their benchmark rate under MCLR much lower than the base rate, tinkering with the spread has left very little on the table for borrowers. While MCLR is reviewed every month, loan rates are tweaked only annually in most cases.

If the issues are complex, possible solutions appear even more so. Questioning banks on the quantum of spread they add to the MCLR will be retrograde as banks should have the discretion to manage costs and build in the necessary risk premium. Imposing a shorter reset clause to facilitate faster transmission can lead to volatility in EMIs which will be unpleasant for borrowers, particularly in a rising rate scenario. It will also make banks' task of managing asset-liability gaps more onerous. While it is unclear how the RBI will iron out these issues in the coming months, drawing lessons from the past can help. As a thumb rule, only about half of banks' funding gets re-priced when the RBI adjusts rates. By designing a framework that forces banks to transmit more benefit than they actually reap, the central bank has got off on the wrong foot. Tempering expectation around transmission can help find a more sustainable solution. Instead of micro-managing pricing decisions, the RBI should foster greater competition. Remember, only a handful of banks is still offering low rates under the new regime. Deepening of the bond market would also help rates to seamlessly flow between markets. Banks can price their deposits more realistically against benchmark instruments, in turn ensuring quicker transmission of market rates to lending rates.

Source – The Hindu Business Line 13th June 2016.

COURT DECLARES MALLYA A PROCLAIMED OFFENDER

Beleaguered businessman Vijay Mallya was today declared a proclaimed offender by a special court here on a plea by the Enforcement Directorate(ED) in connection with its money laundering probe against him in an alleged bank loan default.

"The ED application is allowed and proclamation is issued against Vijay Mallya," ordered Special Judge PR Bhavke.

The agency had moved the court to issue an order under Section 82 Cr PC and term the liquor baron a proclaimed offender as he has "multiple" arrest warrants pending against him including a non-bailable warrant (NBW) under the Prevention of Money Laundering Act (PMLA).

The agency informed the court about the status of investigations in the case and the needs to get Mallya join the probe. A person can be termed a proclaimed offender in a criminal case probe if the court has reasons to believe that the accused against whom a warrant of arrest has been issued by it has absconded or is concealing himself so that such warrant cannot be executed.

Under Section 82 of the Cr PC, the court can publish a written proclamation requiring such an accused to appear at a specified place and at a specified time in not less than 30 days from the date of publishing of such a proclamation.

Officials said that the agency also has the option to seek action under Section 83 of the Cr PC (attachment of property of person absconding) if Mallya does not comply with proceedings initiated under Section 82.

The ED has been wanting Mallya to join investigations "in person" in its PMLA probe against him and others in the Rs 900 crore alleged loan fraud.

It has virtually exhausted all legal remedies like seeking an Interpol arrest warrant and getting his passport revoked.

The agency is also seeking to invoke the India-United Kingdom Mutual Legal Assistance Treaty to get Mallya extradited from Britain.

ED is also investigating financial structure of Kingfisher Airlines and looking into any payment of kickbacks to secure loans.

Mallya had left India on March 2 using his diplomatic passport.

Source – The Hindu Business Line 15th June 2016.

MERGER A WIN-WIN FOR BOTH SBI, ASSOCIATE BANKS: BHATTACHARYA

The merger of State Bank of India and its associate banks will be a win-win for both, with the merged entity gaining more visibility in the global banking landscape, according to Chairman Arundhati Bhattacharya.

The Union Cabinet on Wednesday gave its in-principle nod to SBIs's proposal to take over its five associate banks.

India's largest bank holds majority stake in all five associate banks — State Bank of Bikaner & Jaipur (75.07 per cent), State Bank of Hyderabad and State Bank of Patiala (100 per cent each), State Bank of Mysore (90 per cent), and State Bank of Travancore (79.09 per cent). As on March-end 2016, SBI had a business size (deposits plus advances) of Rs. 31,94,422 crore while associate banks had a combined business size of Rs. 9,29,697 crore.

"While the network of SBI would stand to increase, its reach would multiply. One can expect efficiencies to be created from rationalisation of branches, common treasury pooling and proper deployment of a large skilled resource base," said Bhattacharya.

As on March-end 2016, SBI had 16,784 domestic branches, 198 foreign offices spread across 37 countries, and 42,740 ATMs. The associate banks collectively had 6,798 branches and 8,964 ATMs.

The SBI chief said, “Currently, no Indian bank features in the top 50 banks of the world. With this merger, some visibility at the global level is likely to increase…The scale of operations and common cost would get rationalised. Overall, the synergies being pooled at one place are going to be a big positive.”

Harshavardhan Madabhushi, General Secretary, Associate Bank Officers’ Association, said his organisation wants a negotiated settlement so that associate bank officers get a fair deal.

He referred to the case of officers of erstwhile State Bank of Saurashtra and State Bank of Indore (which were merged with State Bank of India), whose inter se seniority was reduced and career prospects hurt.

Source – The Hindu Business Line 16th June 2016.

STATE BANK OFFICERS’ BODY SUPPORTS MERGER

A day after the Cabinet gave its nod for the merger of five associate banks and Bharatiya Mahila Bank with State Bank of India, President of All India State Bank Officers’ Federation (AISBOF) D Thomas Franco Rajendra Dev said, “The Federation supports the acquisition by the parent.”

“We never wanted cross-merger for in it (cross-merger) we believed that we would be creating competition amongst us. Only the All India Bank Employees’ Association (AIBEA) was demanding the cross-merger of associate banks into one entity. We had always maintained that there was no need for merging the associate banks with SBI. Now it has been forced on us,” he told this correspondent. The Federation has formed three committees to discuss the various post-merger issues such as human resource (planning), possible closure of branches and ways to integrate the associations.

“The committees met on Tuesday at Mumbai; held a discussion with the SBI Chairperson as well. We expect some quick follow up,” Rajendra Dev said adding, “only by next year, will things really happen.”

Sharing some of the suggestions, he said, “Instead of closing branches located in close proximity, the bank can consider converting some into specialised branches. This would help redeploy the staff as well.”

Source – The Hindu Business Line 17th June 2016.

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