AIRRBOF News Letter
April, 2018
Sky is not the limit, we cover it...
The Voice of All India RRB Officers' Federation
Vol - XXV SILIGURI No. 04

# EDITORIAL

## DON'T PAINT ALL BANKERS IN BLACK

The recent PSB loot orchestrated over nearly a decade with the alleged connivance of a few bank officers in Punjab National Bank has brought infamy to Public Sector Bank employees. Every authority (as also those without any authority) has started crying foul against PSB employees as if the entire community is sinners!! Media, press, social media and everywhere the bankers are looked down upon with sarcasm, contempt and ridicule. Out of more than a million bankers, a few have either dishonestly and/or with the connivance of the powers that be, have resorted to malpractices which enabled unscrupulous elements to swindle public money. Such an act is not only condemnable, they need severest punishment for the offence committed by them. But, how far is it fair to paint the entire banking community as fraudsters or abettors? Sacrifices and contributions of bankers appear to have been forgotten by the populace within no time. Indian Public Sector Banks have made unmatched contributions to the economic growth of the country. Behind this lies the hard work of the public sector bank employees - taking the banking services to villages and remotest parts of the country; facilitating banking services to the common man in an affordable environment facing all odds at workplaces and hardships to their family members.

Scams had never been strange in this country. Right from Nagarwala episode in the seventies of the previous century, till the latest LoU Scam, politicians, business entities, industrialists, Government employees and people of all walks of life had had their participation in these happenings. But when it comes to bankers, the norms of reactions witness a paradigm shift - treating all bankers as criminals which is unfounded and unwarranted. While the involvement of bankers cannot be denied, those who are privy to the credit dispensation at higher levels know the fact that the politicians and bureaucrats had been arm-twisting the bankers into yielding into their force and doing wrong things. Promotions and postings to the top posts in the industry through 'middlemen business houses' and post retirement jobs are also used as baits for such illegal activities with undercover. Threats of inconvenient transfers to the lower level in the hierarchy, opening past cases of irregularities and trapping are also not uncommon. Presently, all Central and State Government agencies and local political chieftains are pressurizing PSBs to disburse MUDRA loans (like distribution of leaflets). This is potent to be another large-scale fraud on PSBs in the days to come, the sprouts of which have already started to germinate. AH these forces will wash off their hands when inconvenient truth comes out and bankers who are at the middle and lower rung often get caught in the process as a hapless prey.

Those who have unbridled rights to issue directions and instructions to the bankers are today showing accusing fingers at each other without owning their failures. In the entire system, there appears to be no accountability for the controllers and owners. For example:

From the date of announcement of demonetization till today, no step has been taken to ascertain how crores of rupees of fresh currency went into the hands of certain private banks, individuals and entities to facilitate illegal exchanges - during the period of demonetisation. Whether such an act can take place without the connivance of persons in control of the newly printed notes?

Controllers/Regulators permitted ever-greening of large borrowal accounts through various sophisticated schemes like CDR, JLF, SDR, S4A etc. resulting in postponement of NPA date/s, enabling additional exposures and loss of income to banks due to concessions. All have failed over the last decade – and very miserably. Whether the proponents of these postponement schemes have been held accountable for these costly experiments on bank assets? Today, all these Schemes have been discontinued by the same regulator which confirms the fallibility of these Schemes.

No questions will be asked to the actions and inactions of the central bank in the PNB LoU scam. RBI was aware that SWIFT system in banks is not linked to CBS. Why was there no regulatory diktat to link SWIFT transactions with CBS? Why was RBI audit of the branch not held as per the specified periodicity?

Once the frauds get unearthed, every law-enforcement agency starts working overtime and overnight. Knee jerk reactions - galore. Just because the officer who allegedly facilitated fraud at PNB was continuing in same desk for more than 7 years, DFS and CVC woke up to read their earlier directions to move the officers within certain periodicity. PSBs were directed to transfer alt such people immediately and report compliance!! Do the bank employees have no families and children studying? If there is such a hurry to implement the rule after fire broke out in PNB, why there is no action against these wings of the Government for non- follow up of implementation of the same guideline periodically? What action these agencies have taken against the top managements for their inaction in implementing the guidelines? Do we need to verify the functioning of the fire engine only after fire engulfs?

Successive Governments have been using strong-arm tactics only with the bankers as they are an easier target. Government (owner) has no strong will to deal with these errant big corporate defaulters (supposedly the KINGS). Why the Govt. is shying away from publishing the list of willful defaulters? If the Banking Secrecy law is the hurdle, what prevents it from changing the law in public interest? Stricter actions against the Directors and promoters of the defaulting companies have not been contemplated despite successive frauds, diversions and defaults. Why willful default is not made a criminal offence and why willful defaulters are not barred from holding public offices? No steps depriving access to public money in fresh avtaars to these defaulters are taken, legal systems have not been tightened to expedite the process and plug loopholes.

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Lack of fear of law is the basic reason for the unabated scams in the country because those who indulge in these loots are well connected with the ruling class and bureaucrats irrespective of the party in power. Capabilities to slowdown the wheels of justice is the second. Thirdly, diversion of banking resources to do insurance, mutual fund business. Aadhaar enrolment and such non-banking activities have reduced the time for internal controls, supervisions and other banking aspects. Public Sector Bank Boards are independent only on the paper, but when it comes to functioning they are subjected to back seat driving by the representatives of the owner and the regulator. The latest among the diversions is the frequent (twice to thrice a week), long hour Video Conferences (VC) on issues ranging from. Financial Inclusion to progress in MUDRA to Aadhaar enrolment to infinity - by DFS/MOF, UIDAI and several other quasi owners of the PSBs (- only to listen frequently to reprimand, criticism and ridicule). In reality, Public Sector Banks are not allowed to work as independent commercial organisations. Instead, they have become the political tools in the hands of the ruling/ political dispensations.

- **The Way forward**

The Government shall develop long-term measures to strengthen the PSBs in all respects in consultation with the top managements, representatives of the workforce and seasoned former bankers with rich experience in Public Sector Banks. Government shall shed the influenced rhetoric of mergers, privatization and the like and take concrete steps to strengthen the banking system of the country, strength and effectiveness of which is beyond any doubt.

- **Stricter/Quicker actions against fraudsters**: Government should enact laws making economic willful default a criminal offence with deterrent penalties. The willful defaulters shall be barred from holding public offices and their passport revoked from the date of declaration as willful defaulters. Fast track courts exclusively to deal with such economic offences should be set up so that dispensation of justice becomes quick and will have a demonstrative effect on the rest.

- **Revamping Boards/Committees:** The Boards of PSBs shall be revamped by appointing professionals (not politicians/ from different fields relevant to banking. The selection of Directors shall be done through an independent agency delinked from the MoF and selection shall be done through transparent norms which shall be binding on the Government.

- **Protecting Whistle Blowers:** The recent fraud is a classic example where messenger is shot. Independent Director on the Board of Allahabad Bank who blew the whistle by dissenting the proposal was forced to resign from the post! There is an urgent need to enact laws to protect the whistle blowers and encourage whistle blowing.

It is time for the Government in power that swears by good governance and transparency, to demonstrate its will to walk the talk and talk the walk.

# EXCERPTS FROM AIRRBOF CIRCULARS

Circular # 16:2018 13th March 2018

## UFBU DHARNA AT NEW DELHI

We reproduce hereunder the text of All India Bank Officers' Confederation Circular No. 09 dated 12th March, 2018.

"The UFBU meeting held at Chennai on 23rd February 2018 has decided to hold a massive Dharna before Parliament at New Delhi on the 21st March 2018 to highlight our demands.

- Take tough action on all those involved, connected and responsible for the PNB fraud.
- Do not single out lower level staff
- Do not exclude RBIs' role from the investigation.
- Avoid harassment of employees and officers by mass transfers
- Thorough probe by Joint Parliamentary Committee
- Restore people's confidence in banking system.

All EC members are requested to participate in Dharna along with your members and make it a grand success."

Circular # 17:2018 13th March 2018

## TAX ON PERQUISITE VALUE UNDER SECTION 17(2) OF INCOME TAX ACT, 1961, AS AMENDED BY FINANCE ACT, 2007

## APPEAL AGAINST FINAL JUDGEMENT ORDER DATED 20.04.2016 IN WRIT PETITION NO.10053 OF 2008 OF MADRAS HIGH COURT

## AIBOC APPEAL IN SUPREME COURT OF INDIA

We reproduce hereunder the text of All India Bank Officers' Confederation Circular No. 10 dated 12th March, 2018.

"Please refer to our Circular No.2017/10 & 2017/14 dated 23.02.2017 and 03.03.2017 respectively, on the captioned subject. We advised you vide our Circular of 23.02.2017 that a Special Leave Petition (SLP) No.4327/2017 has been filed, seeking special leave to Appeal against the final Judgment and Order dated 20.04.2016 passed by High Court of Madras in Writ Petition No.10053, by condoning the delay of 216 days in filing the same against final Order dated 20.04.2016. Our case came up for hearing on 27.02.2017 in Hon'ble Supreme Court. The Hon'ble Court has granted an interim protection against the decision granted of High Court of Madras and will apply and continue to members of our Confederation until further orders. The case is listed for hearing on 17th April 2018, and accordingly the stay remains effective for the current financial year. We shall keep you apprised of the developments. The screenshots of the case status as available in Supreme Court website is attached."

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supremecourtofindia.nic.in/case-status

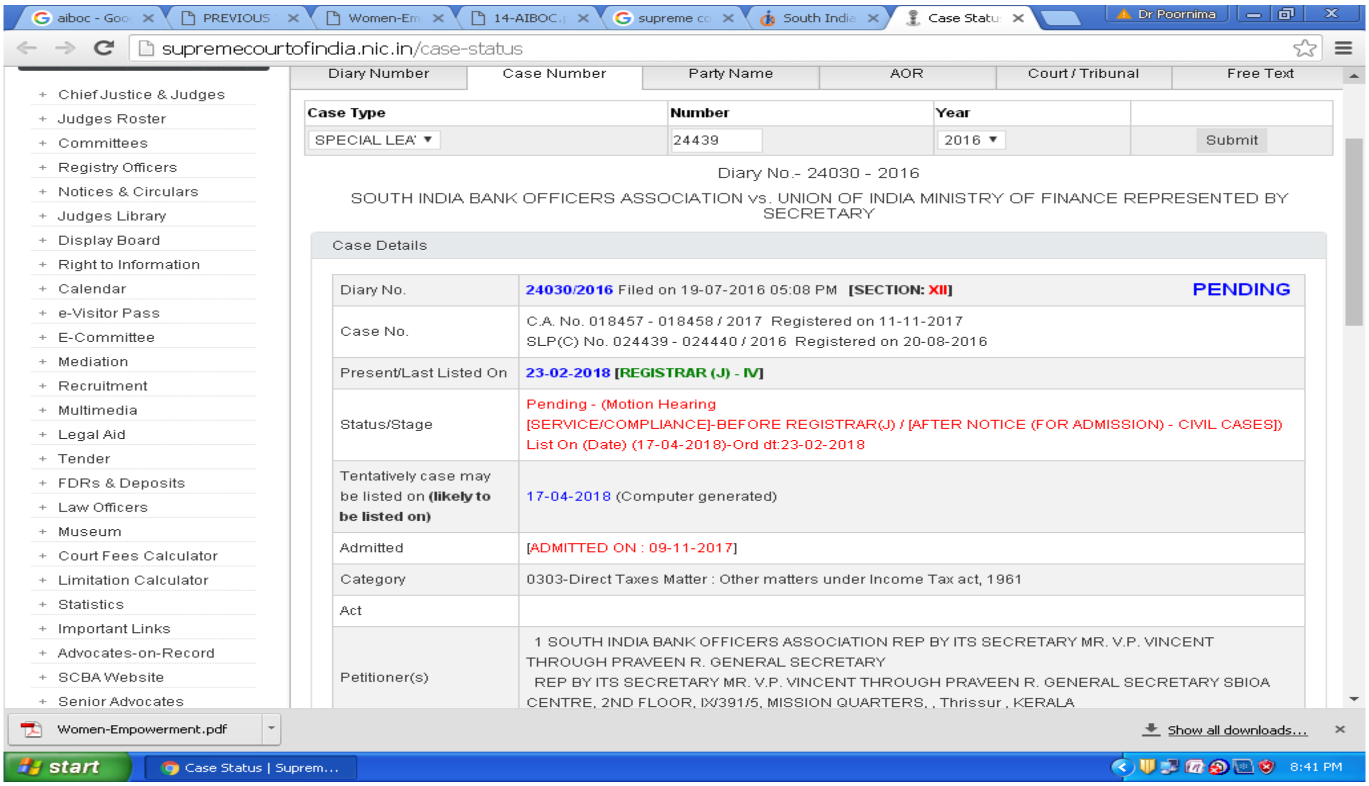
| Case Type | Number | Year | |
|---|---|---|---|
| SPECIAL LEA | 4327 | 2017 | Submit |

Diary No.- 5637 - 2017

ALL INDIA BANK OFFICERS CONFEDERATION vs. UNION OF INDIA AND ORS.

Case Details

| | |
|---|---|
| Diary No. | 5637/2017 Filed on 20-02-2017 11:34 AM [SECTION: XII] PENDING |
| Case No. | C.A. No. 018464 / 2017 Registered on 11-11-2017<br>SLP(C) No. 006977 / 2017 Registered on 21-02-2017<br>S.L.P.(C)...CC No. 004327 / 2017 Registered on 21-02-2017<br><br>S.L.P.(C)...CC No. 004327 - 004327 / 2017 |
| Present/Last Listed On | 23-02-2018 [REGISTRAR (J) - IV] |
| Status/Stage | PENDING (Motion Hearing<br>[SERVICE/COMPLIANCE]-BEFORE REGISTRAR(J) / [AFTER NOTICE (FOR ADMISSION) - CIVIL CASES])<br>Leave Granted / Rule NISI-Ord dt:09-11-2017 |
| Tentatively case may be listed on **(likely to be listed on)** | 17-04-2018 (Computer generated) |
| Admitted | [ADMITTED ON : 09-11-2017] |
| Category | 0303-Direct Taxes Matter : Other matters under Income Tax act, 1961 |
| Act | |
| Petitioner(s) | 1 ALL INDIA BANK OFFICERS CONFEDERATION<br>REP. BY HARVINDER SINGH, GENERAL SECRETARY, S/O LATE SHRI CHARANJIT SINGH, R/O 7/1, 1ST |




| | |
|---|---|
| Diary No. | 24030/2016 Filed on 19-07-2016 05:08 PM [SECTION: XII] PENDING |
| Case No. | C.A. No. 018457 - 018458 / 2017 Registered on 11-11-2017<br>SLP(C) No. 024439 - 024440 / 2016 Registered on 20-08-2016 |
| Present/Last Listed On | 23-02-2018 [REGISTRAR (J) - IV] |
| Status/Stage | Pending - (Motion Hearing<br>[SERVICE/COMPLIANCE]-BEFORE REGISTRAR(J) / [AFTER NOTICE (FOR ADMISSION) - CIVIL CASES])<br>List On (Date) (17-04-2018)-Ord dt:23-02-2018 |
| Tentatively case may be listed on (likely to be listed on) | 17-04-2018 (Computer generated) |
| Admitted | [ADMITTED ON : 09-11-2017] |
| Category | 0303-Direct Taxes Matter : Other matters under Income Tax act, 1961 |
| Act | |
| Petitioner(s) | 1 SOUTH INDIA BANK OFFICERS ASSOCIATION REP BY ITS SECRETARY MR. V.P. VINCENT THROUGH PRAVEEN R. GENERAL SECRETARY<br>REP BY ITS SECRETARY MR. V.P. VINCENT THROUGH PRAVEEN R. GENERAL SECRETARY SBIOA CENTRE, 2ND FLOOR, IX/391/5, MISSION QUARTERS, , Thrissur , KERALA |

Circular # 19:2018 23rd March 2018

## NEWS ROUND UP

The Working Committee of AIBOC met at The Hans, New Delhi on 20th March, 2018. The well attended Meeting continued for the whole day. General Secretary, AIRRBOF who is Advisor to AIBOC attended. He also participated in the deliberation on the Report of General Secretary and called for sustained media message for nullifying the vituperative attack of Govt. of India, Management and media against the Bankers and Public Sector Banks. He also stressed on strengthening RRB Officers' Movement to ensure rural link to the AIBOC Programme and campaign. After lot of deliberation several important decisions were taken on wage revision talks with IBA, Campaign material & public contact. It was decided that AIBOC Committee on RRBs to expedite the growth of RRB Officers' Federation under the Chairmanship of Com. Soumen Roy Choudhury, Advisor, AIBOC shall be held in Kolkata on 30th April, 2018 where all the General Secretaries of Sponsor Bank Officers' Organisation shall remain present Com. Franco., General Secretary, AIBOC shall also actively participate in the proceeding. It was also decided to hold the next Executive Committee Meeting of AIBOC at Port Blair, A & N Island on 9th May, 2018.

2. The massive Dharna by UFBU took place at Parliament Street, New Delhi on 21st March, 2018. The Dharna was addressed by umpteen numbers of MPs, leaders of Different Public Sector Trade Unions and Political Parties. Thousands of officers of Bank including RRBs from adjoining states attended the Dharna. General Secretary and Working President of AIRRBOF along with other Comrades also attended the Dharna. The Programme was a grand success.

3. General Secretary, AIRRBOF along with President, Working President and General Secretary, Gramin Bank of Aryavrat Officers' Association visited Moradabad on 22nd March, 2018. They held meeting with officers of Prathama Bank. The leaders of AIRRBOF also met Chairman and General Managers of Prathama Bank. It is expected that AIRRBOF/AIBOC unit shall come up in Prathama Bank. It was been tentatively decided to hold formation meeting at Moradabad on 27th May, 2018.

Circular # 20:2018 — 23rd March 2018

**MEETING WITH SHRI SUCHINDRA MISHRA, JOINT SECRETARY, DFS ON 21ST MARCH, 2018 EVENING**

General Secretary, AIRRBOF held a long Meeting with Shri Suchindra Mishra, Joint Secretary at his office on 21st March, 2018 at 5:00 PM, Shri Mishra was flanked by Shri Manish Gupta, Director (RRBs). The meeting lasted for more than 90 minutes.

During the discussion we expressed our great anguish over the Govt. of India plan to prolong the proceedings before the Hon'ble Supreme Court in WP No. 39288/2012 as the Govt. counsel is killing the time. We suggested that instead of taking a macro view on the Pension issue the matter should be looked at the Micro level i.e. at RRB Level. We attributed high attrition of newly recruited officers from RRBs due to paltry Pension and ceiling based P.F. We urged upon the Govt. to submit fresh affidavit before the Hon'ble Apex Court in the line that all officers and employees are covered by Pension Scheme at par.

We expressed our strong annoyance over the role played by so called UFRRBU to play to the gallery by giving strike call and withdrawing it at any pretext. We demanded that Meeting be held with all Apex Level Trade Unions irrespective of whether they are part of UFRRBU or not. Joint Secretary agreed to our suggestion.

In order to provide motivation to the officers of RRBs and provide career growth we demanded that:

(i) No recruitment should take place for General Banking Officer above Scale – I.

(ii) Relaxation in eligibility criteria for promotion from Scale – I to Scale – II, and from Scale – II to Scale – III and then to Scale – IV should be ensured in line with Public Sector Banks that would assure career path can be ensured for officers joining in Scale – I on direct recruitment.

(iii) The issue of extension of other allowances at par should not be vested with Sponsor Bank and Govt. of India should issue direct circular.

(iv) Recruitment in cadre should not be restricted in RRBs irrespective of profit/loss so that natural wastage can be filled up and manpower support can be extended to garner business.

(v) A structured forum like Public Sector Banks should be introduced at RRB Level and at Govt. of India Level to ensure periodical exchange of views between Trade Unions of Officers and Management.

We could convince the officials on the merit of our demands and it is expected several of our issues shall be resolved shortly.

# PRESS CORNER

## STOCKS AND FLOWS

The Reserve Bank of India's latest move to simplify the resolution framework — doing away with all old restructuring schemes in the process — comes as no surprise, given the pace at which bad loans are surfacing again. Following the RBI's first asset quality review (AQR) two years ago, state-owned banks had reported sharp slippages and a whopping Rs.2.7 lakh-odd crore of bad loans were added to the system in fiscal 2016. This had suggested that the worst was over, but the slowdown in the accretion to bad loans has proved temporary — nearly Rs. 1.7 lakh crore NPAs were added in just the first nine months of the current fiscal. Clearly, a significant portion of NPAs had been swept under the carpet by banks under the guise of various restructuring schemes. The RBI has rightly stepped in to flush out the rot in banks' books under CDR, SDR, S4A or 5/25, by withdrawing them and placing them under the new framework. Banks will now have to begin the resolution process on an account as soon as it is classified as an SMA-0 account — where payments are overdue by 1-30 days — by any one bank within a consortium. This rightly addresses the key reason behind steep divergences reported by banks in recent times.

Aside from tightening the norms for reporting of default to the central repository, the new framework nudges banks to act quickly by setting a timeline for resolution. In respect of accounts with aggregate exposure of Rs. 2,000 crore and above, lenders will have to draw up a resolution plan within 180 days from March 1, 2018 (or default date as the case may be), failing which banks will have to refer the case for insolvency under the IBC. The RBI has also left little room for shaky resolution plans, which will now need the approval of credit rating agencies and will have to deliver results; at least 20 per cent of the outstanding principal and capitalised interest will have to be repaid for the account to be upgraded back to 'standard'.

While the new framework will help hasten recognition of NPAs, there are several other issues that need attention. For one, banks will have to make higher provisioning — 15 per cent when an asset's restructured and 50 per cent if referred to the IBC. With around Rs.2 lakh crore of loans likely to come under the revised framework, capital issues could rankle PSBs yet again. The requirement of all lenders agreeing to the resolution plan could also prove challenging. Whether the existing infrastructure under the IBC set up will be able to deal with the expected deluge of insolvency filings is another issue. Above all, the new framework still deals with the stock of the NPA problem and not the flow. A clear roadmap for the Centre to divest its stake in PSBs and granting more autonomy to bank boards is imperative to avoid a repeat of the bad loan mess.

**Source – The Hindu Business Line, 19th February, 2018.**

## CENTRE PUBLISHES NAMES OF 9,500 'HIGH RISK' NBFCS

The Centre has categorised about 9,500 non-banking financial companies (NBFCs) in the country as "high risk" prone, as they have not complied with a stipulated provision of the prevention of Money Laundering Act (PMLA).

The Financial Intelligence Unit (FIU) – which works under the Union Finance Ministry to check crimes and alert enforcement agencies against such instances –has published a list of 9491 "high risk financial institutions".

The list has been updated till January this year.

Under the PMLA, the NBFCs, which includes cooperative banks, are required to furnish details about their financial operations and transactions to the FIU. Sources said the FIU processed the data of these companies and found that they did not comply largely on one stipulated condition – of appointing a principal officer who is responsible to check and report suspicious transactions and cash transactions of Rs 10 lakh and above, and report it to the agency.

The activities of these institutions – post the demonetisation of large currency notes of Rs 1,000 and Rs 500 in November, 2016 -- were under the scanner of the FIU and it published their names after analysing their data from various information sources, the sources added.

**Source – The Hindu Business Line, 27th February, 2018.**

## IDBI BANK SURGES ON NON-CORE DIVESTMENT,

Capital-crunched public sector banks are offloading some of their non-core investments to cut their losses. IDBI Bank, which has been weighed down by high NPAs and weak profitability, has zoomed nearly 20 per cent over the past week on news of it offloading its entire 30 per cent stake in NSDL E-governance Infrastructure (NEGIL). There are also reports suggesting a possible stake-sale by the Centre in the bank.

But the rally may be overdone, considering the weak underlying core business.

IDBI Bank, which posted a loss for the fifth quarter in a row in the latest December quarter, has the highest gross non-performing assets ratio within the sector. As of December 2017, its GNPA stood at 24.7 per cent of loans, sharply up from 15 per cent in the corresponding period in the previous year.

High net NPA and negative ROA had led the RBI to invoke Prompt Corrective Action (PCA) against IDBI Bank. The PCA involves monitoring certain key performance indicators of banks, and taking corrective measures, if need be, to restore their financial health.

In the Centre's first tranche of the massive recap plan (Rs.88,139 crore of capital, of which Rs. 80,000 crore is via recapitalisation bonds), IDBI Bank was given the most capital (Rs.10,600 crore). As of September 2017, before the announcement of the capital infusion, the bank's tier I capital ratio stood at 8.9 per cent; as of December 2017, it is about the same at 8.97 per cent.

Given IDBI Bank's weak profitability and capital ratio, monetisation of some of its non-core assets can add some buffer to the capital base.

Hence, its latest move to sell its entire stake in NEGIL, and rake in a notable amount (undisclosed in the exchange filing but some reports peg the sale amount at Rs. 1,100 crore) is a positive. In December 2017, IDBI Bank had also sold its 7 per cent stake in National Securities Depository (NSDL), one among the two depositories in India. From 30 per cent earlier, IDBI Bank's stake is now down to 23 per cent in NSDL.

But while IDBI Bank also has other non-core investments it may try to monetise, the recent sharp rally only on account of a stake sale in NEGIL may be overdone.

The underlying weak core business remains a drag on the overall sum of the parts (SOTP) value of the stock. Also, the value per share of IDBI Bank's non-core businesses is still minuscule in comparison to the intrinsic (fair value) price of the stock.

At the core level, as mentioned, IDBI Bank's performance has been dismal. Hence, at 0.5 times its book value (as of December 2017), the value per share would work out to Rs. 45-50. The other non-core investments would add about Rs. 10 to the bank's core value. The current market price of Rs. 79 per share after the recent run-up appears overvalued.

IDBI Federal Life Insurance is a life insurance company in which IDBI Bank has a 48 per cent stake. The insurance company has seen a 10.6 per cent y-o-y growth in new business premium between April 2017 to January 2018, lower than the industry (private players) growth of 17 per cent during this period.

Its share amongst private players is about 1.4 per cent. Life insurance players in the industry with scale, balanced product portfolios and diversified distribution model will drive premium valuations — SBI Life, HDFC Life, Max, ICICI Pru Life and Kotak Life being some of them. Others are likely to get consolidated.

Since the embedded value of IDBI Federal is not available, we considered the deal value pegged for the company in 2015, when there were reports that Ageas was going to pick up a 20 per cent stake in IDBI Federal for Rs.800 crore. This pegs the total value of the insurance company at Rs. 40,000 crore.

Given that IDBI Federal has not improved its market share since then, these valuations can be used as a benchmark.

The value per share of IDBI Federal for IDBI Bank amounts to about Rs. 7.

IDBI Bank also has 100 per cent stake in IDBI AMC. The AMC, however, ranks low among the fund houses in terms of AUM (Rs. 10,690 crore as of December 2017). Assigning a lower valuation, it adds about Rs.1 per share to IDBI Bank.

Thus, given an SOTP value of Rs. 55-60 per share, the recent rally in the stock price of IDBI Bank solely on account of the above mentioned reasons (available publicly) may not sustain for long.

**Source – The Hindu Business Line, 27th February, 2018.**

## 'PNB DOES NOT NEED IMMEDIATE CAPITAL ALLOCATION'

The Centre will wait for further assessment of the fraud by billionaire jeweller Nirav Modi before taking a call on additional capital infusion for Punjab National Bank.

"There is no need for an immediate decision on higher capital allocation. An amount for the recapitalisation of the bank has already been provided for the current fiscal," said a source, adding that for next fiscal, the recapitalisation amount will be decided after another four to five months.

"The exact impact of the fraud is still being looked into and new information is coming up on a daily basis. It is too early to decide," he said, adding that if required, the government will increase the capital infusion plan for the bank.

The Finance Ministry has allocated Rs. 5,473 crore to Punjab National Bank as part of the capital infusion plan for 2017-18.

PNB, which is the second-largest state-run lender, has also called an extraordinary general meeting on March 16 to get approval to issue 33.49 crore shares to raise the amount through preferential issue to the government. On February 14, PNB had reported an Rs. 11,300-crore fraud by the Nirav Modi Group and the Mehul Choksi Group to the stock exchanges. Since then it has said that the amount involved in the fraudulent transactions could increase further to Rs. 12,700 crore.

Finance Ministry officials said that the focus at present is to review the losses and make full efforts at recovery. "Any request from the bank for fund support will be fully looked into but it may not take place immediately," said the official.

Analysts and rating agencies such as Moody's have pointed out that PNB needs to raise more capital from external sources, which would mainly be from the government.

**Source – The Hindu Business Line, 28th February, 2018.**

## 'IN PENSIONS, INDIA HAS ONLY TAKEN BABY STEPS'

Finance Minister Arun Jaitley on Wednesday stressed the need for India to take a "larger march" towards becoming a pensioned society, stating that the current expansion is just "baby steps".

"Given the social changes that are taking place before us, there is a great need for India to evolve into a pensioned and insured society," Jaitley said at the Pension Fund Regulatory and Development Authority's (PFRDA) fourth pension conference here on Wednesday.

Age expectancy is going up in India, while family structures are changing and and people are moving across cities in search of vocation, he observed at the conference, whose theme was 'Creating an inclusive and sustainable pension system in India: Opportunities and challenges'.

Jaitley also launched 'Pension Sanchay', a financial literacy and pension planning website. Additionally, he released two reports — a Crisil report on financial inclusion (Crisil Inclusix) and a PFRDA-Crisil joint report on pension coverage.

The Finance Minister said the National Pension System (NPS) "experience" has been positive, and its returns, attractive.

"As the society has evolved and the meaning of social security has changed, pension here plays a vital role for making the life of people more secure socially," he said.

Jaitley further said India is still far behind in pension development. Sample this — the much talked about Atal Pension Yojana (APY) has reached only 90 lakh subscribers, when the total unorganised workforce is estimated at 38-40 crore, a pension industry expert said.

"If we don't catch up…a large section of senior citizens may get diverted into dependency," Jaitley said.

PFRDA Chairman Hemant Contractor, in his address, suggested that the Centre allow automatic enrolment for pension for employees of small and medium businesses that are now registered with the GST Network (GSTN).

Thanks to GST, many informal businesses are now getting formalised, and there is scope for auto-enrolment for pension for employees in these firms, Contractor noted. "I have written to the Finance Minister requesting that auto enrolment be allowed for the small firms. This will help expand pension coverage," he later told *BusinessLine*.

Speaking at the event, Ashu Suyash, Managing Director & CEO, Crisil, said there has been significant progress in financial inclusion in India in the last three years, as corroborated by the scores of Crisil Inclusix, the country's first financial inclusion index.

The index registered a score of 58.0 at the end of FY16, a significant progress against 50.1 in FY13, Suyash noted. This was propelled by two major factors — significant increase in the number of deposit accounts, largely because of the Jan Dhan initiative, and a sharp increase in the number of credit accounts across regions.

The score would have been even higher at 62.2 if one were to exclude the effect of rebasing and insurance, she added.

Crisil Inclusix weighs three service providers — banks, insurers and microfinance institutions — on four dimensions, viz branch, credit, deposit and insurance.

**Source – The Hindu Business Line, 1st March, 2018.**

## BANKS WANT RBI TO RELAX REVISED FRAMEWORK FOR NPA RESOLUTION

The Indian Banks' Association has written to the Reserve Bank of India requesting relaxation in its revised framework for resolution of stressed assets, emphasising that the banking regulator's zero tolerance towards even a day's delay in loan repayment could seriously jeopardise lending to the infrastructure sector, which is a priority area for the government.

While banks have no issue in reporting an account to the Central Repository of Information on Large Credits (CRILC) even if there is a day's delay in loan repayment, they want the account resolution process involving restructuring to kick-in only after 60 days (and not on the first day of default).

The reason for seeking the above mentioned relaxation in the revised framework for resolution of stressed assets, which was announced on February 12, is that infrastructure projects typically face cash flow issues or delays in realising their receivables.

"Some companies generally default (in principal or interest payment) by 30-40 days but then they regularise their loan account. So, 60 days 'curing' period should be given to them. If on the 60th day they are not able to pay and regularise the account then only restructuring should start," said a top public sector banker.

Bankers fear that if the restructuring process starts on day 1 of default then they will have to immediately downgrade the account to the non-performing asset (NPA) category and this will have provisioning implications.

While the RBI has done away with all its instructions dealing with resolution of stressed assets and replaced them with the revised framework for resolution of stressed assets, bankers feel there is a need for forbearance, especially in cases where an account has been taken up for restructuring under the erstwhile Strategic Debt Restructuring (SDR) scheme.

"Suppose under the SDR scheme, lenders have already converted the debt of a stressed company into equity. Earlier, post-conversion, they had 12 months for change of management under the scheme. But the RBI has suddenly withdrawn all schemes relating to resolution of stressed assets with effect from March 1 and the accounts will become NPA," said another banker.

So, in the case of accounts where restructuring has already been initiated under the earlier stressed asset resolution schemes, banks have sought forbearance of 180 days to complete the restructuring process.

"We are seeking this forbearance as under the revised framework for resolution of stressed assets when an account becomes NPA, upgrading it is almost impossible.

"Under the new guidelines, at least 20 per cent of the principal amount has to be repaid before an account can be upgraded. So, that will take at least 3-4 years. So, upgrading an account is a tall order," said the banker quoted above.

Referring to the Economic Survey's GDP growth projection of 7-7.5 per cent in 2018-19 and the Finance Minister's Budget speech wherein he said the country is now firmly on course to achieving high growth of 8 per cent plus, bankers say these projections will become a reality only if banks support the infrastructure sector. For this, the regulator needs to be a little flexible with its guidelines, they added.

"Infrastructure projects face inherent risk of delays. Because they have long gestation, anything can happen. Many times, the delay is from the government's side (such as delays in giving statutory approvals) and not from the promoter's side.

"So, if the RBI doesn't have tolerance even for this then infrastructure lending is going to become a bit risky for banks. If banks go slow on lending due to the stringent RBI guidelines, the government may face a serious issue in financing the infrastructure sector," explained the top public sector banker.

According to the Economic Survey, around $4.5 trillion worth of investments is required by India till 2040 to develop infrastructure to improve economic growth and community wellbeing.

The current trend shows that India can meet around $3.9 trillion infrastructure investment out of $4.5 trillion.

**Source – The Hindu Business Line, 12th March, 2018.**

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## RBI INITIATES SPECIAL AUDIT OF PSBS DEALING WITH TRADE FINANCE

The RBI has initiated special audit of State-owned lenders with focus on trade financing activities, especially relating to issuance of letters of undertaking (LoUs) by them, banking sources said.

In addition, the RBI has asked all banks for details of the LoUs they had issued, including the amounts outstanding, and whether the banks had pre-approved credit limits or kept enough cash on margin before issuing the guarantees.

Most of the big banking frauds, which were unearthed in the recent past, including the one perpetuated by diamantaire Nirav Modi and his associates, pertain to trade finance. Also, many of the willful default cases have their roots in trade finance, the sources told PTI.

In view of the recent Rs.12,646-crore PNB scam, perpetuated through fraudulent issuance of LoUs with the connivance of the bank's staff, it was pertinent for the regulator RBI to examine the issue of trade finance which also included issuance of letters of credit (LC) and LoUs, sources said.

**Source – The Hindu Business Line, 12th March, 2018.**

## DUAL REGULATION OF BANKS LEADS TO FISSURES IN THE SYSTEM: URJIT PATEL

Breaking his silence on the country's biggest banking fraud, RBI Governor Urjit Patel on Wednesday termed it a loot of the country's future by some in the business community, in cahoots with some lenders.

The RBI Governor also underlined the fundamental fissures that exist in the regulations of banks in the country and expressed threats of tremors due to limited control of the regulator over public sector banks (PSBs).

Addressing a lecture on 'Banking Regulatory Powers Should Be Ownership Neutral' at Gujarat National Law University, Gandhinagar, Patel stated that a model of dual regulation of banks in India — by the RBI and the government — leads to the fissures in the banking industry.

The RBI regulates all commercial banks under the Banking Regulation (BR) Act, 1949, but additionally, all PSBs are regulated by the government of India under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, the Bank Nationalisation Act, 1980, and the State Bank of India Act, 1955.

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"This legislative reality has, in effect, led to a deep fissure in the banking regulatory terrain, a system of dual regulation, by the Finance Ministry in addition to RBI... The RBI will undertake actions against the bank that it is empowered to, but this set is limited under its BR Act powers over PSBs," Patel stated.

Indicating the need for greater autonomy and regulatory powers for the apex bank, Patel stated that "the BR Act exemptions for PSBs mean that the one agency — the regulator — that can respond relatively quickly against banking frauds or irregularities cannot take effective action."

"Hence, for example, MDs at PSBs find it comfortable to tell media that business will be as usual for them under RBI's Prompt Corrective Action framework even if they do not meet the stipulated restrictions of the framework, the ultimate authority over their tenure is with the government and not with the RBI," Patel told the gathering.

Referring to the recent over $2-billion fraud at Punjab National Bank (PNB), Patel said: "In plain, simple English, these practices amount to a looting of our country's future by some in the business community; in cahoots with some lenders...I speak today to highlight some fundamental fissures that exist in the regulation of banks, in particular, PSBs."

"We are doing all we can to break this unholy nexus," Patel said indicating a move towards an overhaul of the banking regulations in the country.

Indicative of churning for elixir as part of the *Samudra Manthan* of the modern day Indian economy, Patel urged the promoters and banks to be on the sides of the *Devas* rather than the *Asuras*.

Until the churn is complete and the nectar of stability safely secured for the country's future, "someone must consume the poison that emanates along the way. If we need to face the brickbats and be the *Neelakantha* consuming this poison, we will do so as our duty," he said.

Observing that there has been a tendency in the pronouncements post revelation of the fraud that the RBI supervision team should have caught it, Patel said no banking regulator can catch or prevent all frauds.

"While that can always be said ex post with any fraud, it is simply infeasible for a banking regulator to be in every nook and corner of banking activity to rule out frauds by 'being there'," he said.

Referring to PNB, Patel said the RBI had identified, based on cyber risk considerations, the exact source of operational hazard — through which "we understand" now the fraud had been perpetrated.

In particular, he said, the RBI had issued precise instructions via three circulars in 2016 to enable banks to eliminate the hazard.

"It turns out ex post the bank had simply not done so. Clearly, the internal processes at the bank failed in allowing the operational hazard to remain in place in spite of clear instructions to close it," he said.

Patel also flagged the issue of rising bad loans (or NPAs) saying that the problem needs immediate attention.

"Its magnitude is larger than the Rs.8.5-lakh crore of stressed assets on bank balance sheets and its significance stems from several practices in the promoter-bank credit relationship that need immediate attention."

**Source – The Hindu Business Line, 15th March, 2018.**

## SHETTY, FORMER DEPUTY MANAGER OF PNB, BOOKED IN FRESH RS 9-CR LOU FRAUD

Nirav Modi and Mehul Choksi groups were not the only ones indulging in frauds related to Letters of Undertaking (LoUs) issued by the Punjab National Bank (PNB) officials.

The Central Bureau of Investigation (CBI) has filed another case against former Deputy Manager of PNB, Gokulnath Shetty -- who was arrested in multi-crore fraud involving Modi and Choksi -- for allegedly issuing Letters of Undertaking worth Rs 9.09 crore to Chandri Papers.

Besides Shetty, PNB's Brady House Branch in Mumbai's Single Window Operator Manoj Hanumant Kharat and Directors of Chandri Papers -- Aditya Rasiwasia and Ishwardas Agarwal -- have also been named in the CBI FIR registered on March 9.

The CBI registered the fresh case against Shetty following a complaint filed by the PNB on the same day.

The FIR said that Shetty and Kharat entered into criminal conspiracy with the directors of the Mumbai-based Chandri Papers and defrauded the PNB to the tune of $1,421,311.82 (equivalent to Rs 9,09,63,956) by issuing two LoUs.

The FIR said that company did not have any credit limit with the bank and no margin was retained.

"The LoUs were issued on April 25, 2017 favouring State Bank of India, Antwerp, Belgium with due date of payment as on January 20, 2020," the FIR said. These are the first LoUs with a maturity period of more than two years.

Earlier, the LoUs issued were with a maturity period of 360 days, although the Reserve Bank of India stipulates a maturity period of only 90 days.

The CBI had arrested Shetty in February, along with two other persons, in connection with bank fraud case against Modi and Choksi.

**Source – The Hindu Business Line, 16th March, 2018.**

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