



ALL INDIA UNION BANK PENSIONERS AND RETIREES FEDERATION
(Affiliated to All India Bank Pensioners & Retirees Confederation – AIBPARC)
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Ref. GS:

30th December 2017

Dear Comrades

We are pleased to attach herewith a letter written by the Joint Conveners of Confederation of Bank Pensioners and Retirees Organisation (CBPRO) to Shri Arun Jaitley, Honourable Finance Minister, Government of India. The letter is on the subject of Financial Resolution and Deposit Insurance Bill, 2017 (FRDI). The letter is a bit lengthy one and it is concerning about the NPAs in the Banking Industry, fears of the depositors about their money invested in bank deposits, etc.

This is being circulated for the kind information of all our members and friends

Please read and update.

Regards

Yours Sincerely,

(N. GOVINDRAJULU)
GENERAL SECRETARY

CBPRO

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To

Shri Arun Jaitley
Finance Minister
Government of India
New Delhi

Hon'ble Shri Jaitley ji

FINANCIAL RESOLUTION AND DEPOSIT INSURANCE BILL 2017

We are Coordination of the Organisations of the Pensioners and Retirees including that of State Bank of India and represent about five lakh members. Having served the Banking industry for 30-40 years, our members, as the senior citizens of the country, have vested interest in the health of the banking and other financial sector entities in the country. Moreover, the lifelong savings and the terminal benefits of our members are invested in the banking institutions.

In this background, we express our reasoned concerns on the implication of the provisions of the FRDI Bill 2017, which was introduced in the Parliament in August, 2017 and subsequently referred to a Joint Parliamentary Committee under the Chairmanship of Shri Bhupender Yadav, Hon'ble Member of Parliament, for obtaining feedback from the general public and submit its recommendations for suitable modifications to the bill before it is put to discussion in the Parliament. The very fact that the JPC could not accomplish its assigned task within the permitted time upto 15.12.2017 is an indication enough of the enormity of task on hand before formulating comprehensive recommendations. We are happy that the term of JPC has since been extended upto the last day of the budget session for the next financial year. We request you to give a serious thought to the following concerns before the Bill is put for a discussion in the Parliament:

The proposal to set up a Financial Resolution Corporation to take over the functions of the Deposit Insurance & Credit Guarantee Corporation (DICGC) – an arm of RBI, lacks reasoning.

It's another important function to supervise the Lending Institutions and classifying them in accordance with their risk profile amounts to avoidable infringement on the powers of RBI as a Regulator. Its power to step in to resolve the cases of failure, bankruptcy and liquidation does overlap with the powers of RBI and Banks Board Bureau (BBB). We are of the considered view that it would be wiser to strengthen the existing infrastructure rather than creating multiple authorities.

Provisions to empower Resolution Corporation to determine the amount of insurance of the depositors at the time resolving the case of a failure would lead to a lingering anxiety in the minds of the depositors. It would have serious implications to the aging and ailing members of our Organisation. Sir, you will appreciate that their deposits not only represent their lifelong savings but also the means of their livelihood and sustenance out of the already falling income levels due to interest rates decline and rising cost of living. The deposit insurance limit of Rs.100,000/- was fixed in the year 1993 and the cost living and the level of sustenance has risen multiple times since then. Further erosion in the purchasing power of the money calls for increasing the limit of insurance of bank deposits per account to atleast Rs.35 lacs. Their anxiety deserves a sober consideration.

The apprehension of the failure of banks and other financial institutions is prompted by the burgeoning Non-Performing Assets especially of the large corporate borrowers. Despite a well-intended introduction of Insolvency and Bankruptcy Code, the problem of poor recovery of NPAs seems to be getting compounded if the first resolution by National Company Law Tribunal (NCLT) is any indication. There is need to make the Bank Loan Default a non-bailable criminal offence and hold the promoters criminally and financially liable by providing for attaching their financial and non-financial assets including the assets of their family members.

Proposal to use the depositors' money for the purpose of bail in operation which would essentially be necessitated by growing loan defaults, amounts to cross-subsidization of the losses of the corporate sector by the small and innocent depositors. It is a strange proposal in the light of the fact that the profits earned by the banks from grant of corporate loans are not shared with the depositors then why should the losses of the corporate and the banks be termed as a liability of the depositors in an overt or covert manner?

Sir, you will agree that RBI as a Regulator has not so far allowed any bank failure causing loss of deposits. It speaks of prudence on the part of RBI to detect the early warning signals of incipient sickness of the banking entities and act as a match maker to ensure a smooth merger or takeover without any cost being passed on to the depositors of the failing bank.

The introduction of FRDI Bill is a reflection of the apprehension on the part of the Government about time tested competence of RBI in handling the bank failures in the past. The need for such a major shift in the perception, approach and policy on the part of a progressive Government defies logic except that it seems to be a imitation of US and some of the G20 nations.

There is need to strengthen the Boards of the Banks which are largely truncated and lack the check and balance systems. Many stake holders representing their constituency on the Board of Directors have failed in protecting their interests for obvious reasons. It is a plain fact the aspirants to the post of shareholder directors are made to buy 100 shares – the bare minimum requirement to become eligible and Bank Management actively engages itself in collecting proxies to ensure victory of their sponsored/preferred candidates. Such a favour gets reciprocated in the form of tutored deliberations in the board on crucial matters of agenda. The boards of the banks are largely driven by the full time directors which do not always imply merit and quality. BBB was to monitor the quality of corporate governance of the banks as one of its core functions. The developments so far show its utter failure. It calls for a comprehensive review of the institution of BBB and restoring the said function to RBI.

The bail-in provision envisages for depositors' money be converted into equity, Bonds/Debentures or Long-term deposits as determined by the Resolution Corporation. It would amount to breach of contract between the depositors and the banks thus leading to litigations which the depositors can ill-afford. It is more serious an issue for the aging and ailing senior citizens like our members.

The assurance given you that the Government will fully protect the interests of the depositors and shall infuse Rs.211,000 crores towards recapitalisation of PSBs has been a appreciable timely intervention and prevented a run on some weak banks. The general public believes that the deposits in the bank are the safe investments and have unwritten sovereign backing. We believe that there is an urgent need to sustain such faith in the overall interest of the banking system of the nation. RBI as a strong regulator has created a fair amount of infrastructure to largely insulate the banks in India. Any erosion in the powers and authority of RBI is unwarranted to say the least.

The Government would do better to create the classes of bank liabilities other than the Deposits to be used as complimentary to the capital infusion by the Government so as to ensure prevention of bank failures in the country.

We earnestly request you to consider the aforementioned suggestions and address the concern of the depositors. It is also pertinent that the draft FRDI Bill 2017 has drawn huge adverse criticism not only from the depositors but also from various other sections of the society. Your good-self as an eminent and highly respected parliamentarian would agree that the Government should respect the threshold of the general public acceptance while legislating.

We shall be thankful for kind consideration of our suggestions.

With regards

Yours faithfully,

A Ramesh Babu
K V Acharya

Joint Convenors