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Dear Comrades,

28th October , 2016

News of Interest 28th Oct

QUOTE OF THE DAY

“PUT YOUR HEART, MIND, AND SOUL INTO EVEN YOUR SMALLEST ACTS. THIS IS THE SECRET OF SUCCESS.”

SWAMI SIVANANDA

HIGHLIGHTS

1. BAD LOANS: BANKERS SHIFT FOCUS TO RESOLUTION FROM RECOGNITION
2. BANKERS AGREE TO UNITE AGAINST CYBER THREATS
3. DIWALI CHEER: 2% HIKE IN DA FOR CENTRAL GOVT STAFF APPROVED
4. CONSORTIUM OF 19 PSU BANKS LOOKS TO CONVERT LOANS TO AIR INDIA INTO EQUITY
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6. SBT INCURS ₹587.7-CRORE LOSS ON HEAVY PROVISIONING
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Business Standard

1. Bad loans: Bankers shift focus to resolution from recognition

For now, even as there is ample demand for big-ticket loans, banks are hesitant to open up their purses

BS Reporters

After two laborious years of recognising stress in big-ticket loans, banks have moved on to resolution even as they want the existing tools to be fine-tuned to make them more potent in recovering dues. In the absence of a fool-proof recovery mechanism, banks, however, are wary of scaling up lending. That was the consensus among some of the country's leading bankers at the *Business Standard* Banking Round Table 2016 held in the city on Thursday.

Despite the tools for resolution not being perfect, bankers were satisfied that the government and the regulator were proactive in recognising the lacunae and were

making changes that would allow banks a better grip on the loan recovery situation, the bankers said.

The panellists were HDFC Bank Managing Director Aditya Puri, ICICI Bank MD & Chief Executive Officer Chanda Kochhar, Union Bank of India Chairman & MD Arun Tiwari, Axis Bank MD & CEO Shikha Sharma, Citi India CEO Pramit Jhaveri, and IDFC Bank MD & CEO Rajiv Lall.

At the round table, bankers took the opportunity to warn borrowers that they would not hesitate to take harsh steps to recover their money.

"The message from the government, Reserve Bank of India and banks is we are not here for charity. You take my money, you give it back. When the ship sinks, you will have lot more resolutions, lot faster and nobody will think of king's lifestyle with our money," said Puri.

For now, even as there is ample demand for big-ticket loans, banks are hesitant to open up their purses.

"No bank is going to provide financing to private sector green field infrastructure projects for some time at a scale, and the government has to understand that until the soft infrastructure of dispute resolution and contractual infirmity is not resolved, you will not get available financing allocated to project finance in this country," said Lall, whose bank, the latest commercial lender in the system, was until a few months back an infrastructure finance company.

Lall was supported by all the others on the panel.

"In the new world, I see projects are going to get financed only if there is a tighter contract," said Sharma. "Forget banks, even promoters are going to look at it that way, because if banks have suffered, promoters have suffered in those projects as well. They were probably hoping to get some equity value in those cases and the equity value has been eroded," Sharma added.

According to Jhaveri, "there is no loan which is non-interest bearing and non-repayable," but "a disproportionate amount of risk was being borne by banks."

The next round of growth, though, they said, should come from the secondary impact of government spending. They were unequivocal that banks had made strides in loan recovery. Even as non-performing assets (NPAs) get reflected in banks' books with a lag and differ from bank to bank, when a particular account becomes bad to a lender, resolution across the banking system was on a strong footing.

"We have seen more change of management in the last 18-24 months, than in the history of the financial sector. Resolution takes some working through the system, but it is happening," said Sharma.

Kochhar seconded Sharma saying, "We as an industry should focus on resolution. Banks themselves are conscious of recovery and going about it in a focused manner. Promoters have understood that they will have to sell assets in order to deleverage."

A shot in the arm has come from RBI and the government, as the system is becoming "an enabler of resolution mechanism," through the bankruptcy code and RBI's restructuring norms.

Taking advantage of the recovery mechanism, banks either directly or indirectly, forced their corporate clients to sell non-core assets. "In the last two years, we have seen sales of Rs 1.5 lakh crore finalised — the largest ever in any corporate history," said Kochhar. This sale has been possible after two years of working on those deals, bankers said, underlining the fact that it needs patience for results to get reflected.

However, the tools for resolution have to be fine-tuned further. For example, the Scheme for Sustainable Structuring of Stressed Assets (S4A) was good to start, but was not workable, said Tiwari. He said, "S4A was good to start with on A4 sized paper but it was not working. And after all the suggestions we gave the RBI, one can be sure that new format of S4A will be workable," Tiwari said.

Under the S4A scheme, banks can convert debt into equity and take over a company and change the management.

However, Kochhar said banks cannot just convert debt to equity and keep taking assets without having buyers because the tools the RBI has given are supposed to help reach some ultimate resolutions and not result in banks taking ownership of assets and then not knowing what to do with them.

But, the signal is clear that the ecosystem is coming into place for better NPA resolution.

"What gets borrowed needs to be paid back," is the signal now, said Sharma.

2. Bankers agree to unite against cyber threats

A Europe-like cyber security defence alliance is the need of the hour, say banking technology experts

Nupur Anand

At a time when the banking sector is grappling with a possible systemic risk brought upon by the data breach of 3.2 million cards, banking technology experts at the Business Standard Banking Technology Round Table said banks should collaborate to tighten the security framework.

Even though India is still far from a defined cyber security defence alliance, it could be a pressing need. "We probably need to have a better interoperable system of security in the banking industry to stay one step ahead of fraudsters. In fact, we could have a cyber security defence alliance like the way it works in other nations," said Madhivanan Balakrishnan, chief technology and digital officer, ICICI Bank.

According to Balakrishnan, along with collaborating on security, sector participants could get together and share data and information pertaining to cyber security.

In times of emergencies, the banking system as a whole should come together to reassure customers. The panellists unanimously agreed that the aftermath of the data security breach could have been handled better. Banks individually went on to assure their own customers that their networks were safe, but that did little to restore confidence on a customer who uses another bank's ATM.

"All the banks have been reassuring their own customers but banks also need to go and assure the customers that entire network is safe. That degree of comfort would have been more reassuring than the one we have seen in this case. This is because the customer will perceive it as a network threat," said Nitin Chugh, country head-digital banking, HDFC Bank.

In the recent event of data theft, all banks as well as Hitachi Payments System that operates YES Bank ATMs where the malware was allegedly found, sent out communications saying there was no security threat at their end. Some lenders had specifically advised their customers to operate only ATM networks of their bank.

This greater emphasis on cyber security also comes at a time when digital and cashless transactions are increasing in the country and some cases of data vulnerability could slip through. As the panellists pointed out, the data attacks have always been present in terms of phishing, vishing schemes etc. But now that these

attacks are more co-ordinated, lenders also need to step up security and collaboration.

"Digital is an opportunity and also a threat, but it is still necessary to adopt it because of the convenience it brings. But we need better fraud management and security in place," said Rajesh Mirjankar, MD & CEO, Infracore Tech.

Ramas Venkatachalam, MD India and South Asia, FIS said this was no longer a bank-specific problem but a sector-wide concern where all the players needed to come together. "Security and infrastructure concerns are related to all banks and not one. So if all come to the same table then it is easier to resolve it. Even the regulator could play a role here. In the pursuit of transactions and to reduce the cost of transactions there may be compromises being made, which the regulator needs to take a look at," he added.

In the past few months, the Reserve Bank of India (RBI) has also stepped up focus on the need for banks to strengthen their information technology networks.

However, in certain cases the regulator's stringent approach and handholding may curtail growth. For instance, sectors like peer-to-peer lending, which will come under RBI's purview, could have been given more leeway to evolve. "Some of the disruptions must happen. We believe that some leeway has to be given where it doesn't post a systemic risk or a massive exposure to customers," said Venkatachalam.

For instance, RBI recently relaxed some of the rules for the payments banks. These niche banking players that are allowed to only accept deposits and not lend had asked RBI for some relaxations in rules as the risk and their revenue earning capabilities are not the same as universal banks.

The genesis of payments banks was the idea that lenders are not able to scale up at a level that the economy requires for small value transactions because of certain business model and cost effectiveness reasons. The structure that was formed is also inherently different from the conventional banking risk structure," said Shinjini Kumar, CEO, Paytm Payments Bank. She added that the risk was reduced for payments bank because of lower ticket size and lending restrictions, and so they should be treated differently.

Business Line

3. Diwali cheer: 2% hike in DA for Central govt staff approved

OUR BUREAU

The Cabinet on Thursday approved a 2 per cent hike in dearness allowance (DA) for Central government employees with effect from July 1, 2016 to compensate for the rise in prices.

"The increase is in accordance with the accepted formula, which is based on the recommendations of the 7th Central Pay Commission," said a statement issued after the meeting.

The combined impact on the exchequer on account of both DA and Dearness Relief would be ₹5,622.10 crore a year and in 2016-17 for the period of eight months (that is from July 2016 to February 2017), it would be ₹3,748.06 crore.

About 50.68 lakh government employees and 54.24 lakh pensioners will be benefitted. The Cabinet also approved a New Productivity Linked Reward (PLR) Scheme for all major port trusts and Dock Labour Board employees for the period

2015-16 to 2017-18. The new PLR scheme will benefit about 37,870 port and dock employees in all the port trusts, and entails an yearly outgo of ₹49.58 crore. It also gave its nod for the first Cadre Review of Indian Posts and Telecommunications Accounts and Finance Service.

In another decision, the Cabinet also okayed the signing and ratification of an agreement between India and Estonia on the transfer of sentenced persons.

In some other decisions, the Cabinet gave ex-post facto approval for setting up of Indian Institute of Science Education and Research at Berhampur, Odisha. It also cleared the exchange of Airports Authority of India's land measuring 1.6 acres with an equivalent land area of 1.6 acre offered by Odisha Government.

A green signal was given to an Agreement on Trade, Commerce and Transit between India and Bhutan.

4. Consortium of 19 PSU banks looks to convert loans to Air India into equity

ASHWINI PHADNIS

A consortium of 19 public sector banks is looking at converting its loans worth ₹10,000 crore to Air India into equity. If the proposal goes through, as much of 40 per cent of Air India's equity will be held by the consortium.

The proposal, which is in its initial stages, needs to be approved by the boards of each of the banks and Cabinet before it is finally put into action, a process that may take up to six months. The move will help de-stress banks' loans and is being looked at as a win-win situation for both Air India and the banks. It will not only help the state-owned airline to rework its outstanding funds with the banks but also help the banks as stakeholders who can participate at the Board level in Air India's decision making.

This revamp comes against the back drop of the Reserve Bank of India coming out with S4A guidelines which look at ways and means of providing sustainable restructuring for financially stressed companies. The new guidelines allow conversion of outstanding debt into sustainable and non-sustainable debt, with latter being converted into equity. The RBI allows this if a majority of the lenders, who hold nearly 75 per cent of the value of the debt, get approval from their respective boards.

State Bank of India, Bank of India, Bank of Baroda, Punjab National Bank, Central Bank of India, Oriental Bank of India and Canara Bank are among the banks which are part of the consortium which is examining the proposal, a senior AI official, who declined to be named, said.

Rejecting the theory that this was the Government's way of looking at divesting its stake in Air India, another airline official said, "This is broad basing the equity base of the airline. Besides, the Government is a shareholder in the banks and in Air India so what is wrong if a stakeholder owned by the Government owns equity in AI?"

Sources pointed out that this method had been used to restructure the debts of several private sector companies, including Essar Steel.

5. United Bank revamps southern operations

OUR BUREAU

Kolkata-based United Bank of India (UBI) has set up its 36th regional office in Hyderabad to boost business in Andhra Pradesh and Telangana.

The division has been carved out of its Bengaluru regional office with an aim to focus on the two States. The new region comprises 34 branches.

"With this expansion the bank will be able to better serve the customers of these States," it said in a statement.

The undivided Bengaluru region had 67 branches with a total business of ₹5,381 crore.

With the carving out of the Hyderabad region the total business of the new region is expected to be ₹2,935.02 crore. Total deposits stand at ₹450 crore.

6. SBT incurs ₹587.7-crore loss on heavy provisioning

OUR BUREAU

State Bank of Travancore (SBT) has made a net loss of ₹587.68 crore during the September quarter under the weight of prudential provisioning 'at a level much above what is required.'

This is despite the bank having posted an operating profit of ₹492.65 crore during the quarter against year-ago levels of ₹373.15 crore, a growth of 32 per cent. For the half year ended September 30, too, the operating profit of ₹919.29 crore was 10 per cent higher against ₹837.86 crore.

Higher provisions (including additional prudential provisions) and taxation expenses saw it slip into a net loss of ₹1,330.57 crore for the half year as well.

"What we now need to do is control our NPAs and focus on recoveries in NPAs," CR Sasikumar, Managing Director, SBT, told *BusinessLine* here.

"We need to recognise them; we've achieved it to the extent of 99 per cent. More than that, we've made substantial provisions."

The gross NPA stood at 11.55 per cent while the net NPA stood at 7.20 per cent as at September end. The provision coverage ratio came at 50.35 per cent.

Most of the slippages have come from a 'watch list' that the bank had maintained. Last quarter, the total slippages were ₹3,200 crore. It has come down by nearly half to ₹1,593 crore during this quarter.

As for the corporate sector, it is still a difficult world out there, said Sasikumar. But consumption is holding steady. That is reflected in growth in the retail business of the bank, he added.

Total deposits grew ₹7,085 crore year-on-year, mainly driven by growth in current and savings accounts (CASA) of ₹4,257 crore representing more than 60 per cent of growth in total deposits.

7. RBI issues ECB guidelines for start-ups

OUR BUREAU

Start-ups can borrow up to \$3 million or equivalent per financial year — either in rupees, or any convertible foreign currency or a combination of both — for a minimum average maturity period of three years, the RBI said in its guidelines for start-ups to access loans under the external commercial borrowing (ECB) framework.

Spelling out the eligibility criteria for start-ups to tap ECBs, the RBI, in a circular to banks authorised to deal in foreign exchange, said an entity should be recognised as a start-up by the Central government as on the date of raising ECB.

RBI said the lender/investor in the ECB should be a resident of a country which is either a member of the Financial Action Task Force or a member of a FATF-Style Regional Body, and should not be from a country identified in the public statement of the FATF. Overseas branches/subsidiaries of Indian banks and overseas wholly owned subsidiary/joint venture of an Indian company will, however, not be considered as recognised lenders under this framework. According to the RBI, the borrowing can be in the form of loans, non-convertible, optionally convertible or partially convertible preference shares. Conversion into equity is freely permitted, subject to regulations applicable for foreign investment in start-ups.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY