



ALL INDIA UNION BANK PENSIONERS AND RETIREES FEDERATION
(Affiliated to All India Bank Pensioners & Retirees Confederation – AIBPARC)
163/4, Kutchery Road, Mylapore, Chennai - 600004
E mail i.d: aiubparf@gmail.com/ ubioatnng@gmail.com/ suryanarayananram@gmail.com

Com. P.B. Thomas Chairman Thiruvananthapuram M: 09447177456	Com. Nitin Desai President Ahmedabad M: 097277 60641	Com. S. Bagchi Working President Kolkata M: 0983081586	Com. N. Govindarajulu General Secretary Chennai M: 09841089111
---	--	--	--

Dear Comrades,

22nd December , 2017

News of Interest 22nd DEC

MOTIVATIONAL QUOTES

“THE TWO MOST POWERFUL WARRIORS ARE PATIENCE AND TIME. “
LEO TOLSTOY

HIGHLIGHTS

1. RBI REPORT BLAMES BANKS FOR BAD DEBT MESS
2. RBI FINANCIAL STABILITY REPORT: BANKS' GNPA MAY TOUCH 11%
3. FM ARUN JAITLEY BLASTS THOSE CREATING FEAR PSYCHOSIS ON FRDI BILL, SAYS WILL PROTECT DEPOSITORS' INTERESTS
4. STRENGTHEN RBI'S POWER OVER PSU BANKS: IMF
5. RECAP, IBC WILL HELP CLEAN UP BANK BALANCE-SHEETS: RBI

Business Standard

1. RBI report blames banks for bad debt mess

Banks might not have realised the exact implication of risky projects under PPP projects, which were getting implemented under high leverage

Anup Roy

The December edition of the Financial Stability Report (FSR) blamed banks and their lack of expertise in project finance for the current bad debt mess in the economy.

The report, released by the Reserve Bank of India (RBI) on late Thursday, and based on feedback from regulators, was very critical of public sector banks' (PSBs') lax project appraisal standards, which, it said, led to the high bad debt accretion. Besides, the report said, there could be conflict of interest in the whole process.

"The impairment crisis in domestic banks has also highlighted certain basic deficiencies with regard to the appraisal of long-term projects with a significant gestation time," it said.

Adding: "A significant part of such projects undertaken were consortium lending with appraisals being carried out by professional merchant bankers with built-in conflict of interest since they were paid by the borrowers."

Banks might not have realised the exact implication of risky projects under public-private partnership (PPP) projects, which were getting implemented under high leverage.

"The exact implications of such risky projects implemented through the special purpose vehicle route were sometimes not clear to bankers. Further, PPP contracts of long-term duration are complex in nature due to involvement of multiple stakeholders and there is a need to align their objectives for mutual benefit," the FSR said, adding, a successful PPP is possible only when more due diligence by all stakeholders, including the public sector contracting agencies, the private concessionaires, the bankers, etc, happens.

The report, also critical of the 'sameness' in PSBs, implies there are "structural factors at work, which make the PSBs particularly vulnerable."

Even as several committees have recommended ways to get out of the problems of PSBs, the delayed, or partial, implementation of recommendations imply that the "basic vulnerabilities have not been adequately addressed."

"This has had significant fiscal implications."

For example, the government recently had to announce a larger recapitalisation plan amounting to Rs 2.11 lakh crore, albeit seeking explicit commitment from banks towards governance issues.

In the monetary policy conference on December 6, RBI Governor Urjit Patel said the plan is to make banks "slim and trim" through better focused business strategies, and also through sale of non-core assets. The plan is for a "reform and recap package" so that banks do not go back to their old habits.

"The regulators' commitment to not condone the consequences of bank-specific action (by the government) should be seen as a hard constraint," the report said, adding such hard constraint on lending practices and prudential accounting treatment does not take away lenders' discretion for prudential measures aimed at rehabilitating borrowers.

"Rather, such hard constraints strive to place such rehabilitation measures as exceptions and aim not to institutionalise them," FSR said.

In this context, promulgation of the Insolvency and Bankruptcy Code (IBC) was a "watershed event" for the banking system as it allowed valuation of aged impaired assets to be put in perspective, the bi-annual report said.

So far, the transfer of assets to various asset reconstruction companies "was not effective owing to valuation issues," it said, while the IBC, through its auction mechanism was allowing such assets specifically to have executable bids.

“Such a mechanism also points to the possible recovery values embedded in assets of similar ageing profiles,” it said.

The recent referrals under IBC for resolution have implications for the capitalisation requirement too, but the recent “substantial” recapitalisation plan will help banks with requisite capital cushions to “tackle the issue and repair their balance sheets,” the report said.

2. RBI Financial Stability Report: Banks' GNPA may touch 11%

PSBs registered GNPA ratio at 13.5% and stressed advances ratio at 16.2% in September

Advait Rao Palepu

With the stress in the economy expected to remain elevated, the gross non-performing assets (GNPA) ratio of scheduled commercial banks (SCBs) could hit the 11 per cent mark by end-September next year, according to the Reserve Bank of India's Financial Stability Report (FSR).

The overall risks to the banking sector remained elevated due to asset quality concerns. Between March and September, the GNPA advances ratio of SCBs increased from 9.6 per cent to 10.2 per cent, and the stressed advances ratio marginally increased from 12.1 per cent to 12.2 per cent. Public sector banks (PSBs) registered GNPA ratio at 13.5 per cent and stressed advances ratio at 16.2 per cent in September, according to the FSR which was released on Thursday.

The macro stress test for credit risk indicates that under the baseline macro scenario, the GNPA ratio may increase to 10.8 per cent by March 2018 and further to 11.1 per cent by September 2018. A “stress test” is an analysis conducted on a bank, under unfavorable economic scenarios, to see if it has enough capital to withstand the impact of adverse shocks or developments.

“If the macro conditions deteriorate, CRAR or capital-to-risk (weighted) assets ratio of SCBs goes below the minimum regulatory requirements. Under the severe stress scenario, the system level CRAR declines from 13.5 per cent in September 2017 to 11.5 per cent by September 2018,” the FSR notes.

The recent capitalisation plan announced by the government for public sector banks (PSBs) is expected to significantly augment capital buffers of affected banks as also the credit growth.

Banks are meant to have some amount of risk absorbing capacity, hence central bankers and regulators world over mandate, minimum cash reserves, capital reserves, liquidity positions and provisioning levels, amongst other conditions. The FSR's findings note that all PSBs, and some Private ones, had a negative provisioning gap; assuming a benchmark provision coverage at 50 per cent.

A negative gap for a bank means that the actual provision levels maintained by the bank are less than their target provisions (level), therefore, having under-provided for the risk. Further, if there are negative returns on the assets of under-provisioned PSBs, this could hinder the banks' ability to further build-up their loss absorption capacity.

The FSR points out that shocks emanating from the infrastructure sector will considerably hit the profitability of banks. The most severe shocks could wipe out about 87 per cent of the profits banks receive. Additionally, the

power sector has the most significant single factor shock effect, the FSR notes.

Financial Express

3. FM Arun Jaitley blasts those creating fear psychosis on FRDI Bill, says will protect depositors' interests

FM Arun Jaitley today cautioned those creating fear psychosis over the much-debated FRDI Bill and said that the government is committed to protecting every depositor

By: [FE Online](#)

FM Arun Jaitley today cautioned those creating fear psychosis over the much-debated FRDI Bill and said that the government is committed to protecting every depositor. Jaitley also said that Indian economy is growing at 7-8 per cent which is now the new normal. Commenting on inflation, he said, it is under control. "When the (FRDI) Bill comes before the joint committee please discuss this. There is 2011 G-20 commitment when UPA was in power and that was off take of 2008 global crisis when the Lehman Brothers collapsed," Jaitley said in a discussion on 'Supplementary Demand for Grants – Second Batch for 2017-18'. He further added "What do we do with that clause (bail-in). The committee has wise people which will make some recommendations. We will consider that. We are open-minded. We are very clear and the level of protection the government would want would be much higher than level which existed till today."

Earlier also the finance minister asked depositors to not pay heed to "fears being spread on the social media". Taking to the micro-blogging site Twitter, Jaitley had posted this message: "The Financial Resolution and Deposit Insurance Bill, 2017 is pending before the Standing Committee. The objective of the government is to fully protect the interest of the financial institutions and depositors."

According to Economic Affairs Secretary S.C. Garg, the FRDI Bill proposes to protect existing rights of the depositors. "There is no dilution thereof. Instead, it enhances present protections in certain ways. Principal guarantee for PSU Banks' depositors come from government ownership which also remains completely unaffected," Garg said.

The government also explained that the FRDI Bill, 2017 is actually meant to protect interests of depositors. "The Bill is far more depositor friendly than many other jurisdictions, which provide for statutory bail-in, where the consent of creditors or depositors is not required for bail-in," a government statement said.

The Financial Resolution and Deposit Insurance (FRDI) Bill, 2017, introduced in the Lok Sabha in August this year, has a 'bail-in' clause, which some experts say brings potential harm to deposits in the form of savings accounts. The bill is currently undergoing scrutiny by a joint parliamentary committee.

Business Line

4. Strengthen RBI's power over PSU banks: IMF

OUR BUREAU

While an IMF-World Bank report gave a thumbs-up to the government's moves to clean up the banking sector and address bad loans, it also said more steps were needed to be taken, including further strengthening the Reserve Bank of India's (RBI) *de jure* independence and its powers over State-run lenders.

It also supported the Financial Resolution and Deposit Insurance Bill, 2017, but recommended further strengthening of the deposit insurance scheme.

"India's key banks appear resilient, but the system is subject to considerable vulnerabilities," said the IMF in its Financial System Stability Assessment (FSSA) report on India. The report is based on the work of the Financial Sector Assessment Program (FSAP) mission of the IMF and World Bank, which visited India in March 2017 and June-July 2017 and met with senior officials in the Finance Ministry, RBI and SEBI.

Positive plan

"The recapitalisation plan is extremely positive and will ensure that banks have adequate capital to address their non-performing assets," Marina Moretti, Assistant Director and IMF Mission Chief for India FSSA, Monetary and Capital Markets Department told *Business Line*.

The report also noted that stress tests show that though the largest banks are sufficiently capitalised and profitable to withstand deterioration in economic conditions, a group of lenders is highly vulnerable to further declines in asset quality and higher provisioning needs.

"Capital needs range from 0.75 per cent of GDP in the baseline to 1.5 per cent of GDP in the severe adverse scenario," said the report, while supporting the new recapitalisation plan for PSBs and the Insolvency and Bankruptcy Code.

It has also called for a clear plan to be developed to deal with PSBs that will not be able to attract private capital. Additionally, the provision of public capital should be complemented with improved governance and meaningful restructuring of PSBs as well as exit of weak banks.

Along with further empowering the Reserve Bank of India over PSBs, it has also suggesting increasing the supervisory resources of insurance regulator IRDAI, and enhancing SEBI's oversight of capital markets and financial market infrastructure.

The report has also called for a risk-based solvency regime and extending risk-based supervision for insurers and unifying oversight of commodities markets.

Significantly, it highlighted risks from politically exposed persons and the gold sector to the banking system. "Subject domestic politically exposed persons to adequate due diligence and qualify domestic tax evasion as a predicate offense to money laundering," it has recommended.

5. Recap, IBC will help clean up bank balance-sheets: RBI

The government's efforts at recapitalising banks and its introduction of the Insolvency and Bankruptcy Code (IBC) last year is expected to aid a faster clean-up of bank balance sheets, the RBI said in a report.

The combination of linking bank performance to the quantum of funds injected through recapitalisation is expected to bring in discipline and disincentivise the recurrence of forbearance and stress, the Reserve Bank report said.

Addressing asset quality concerns and strengthening banks' balance sheets to reinvigorate credit growth remain key priorities.

'Don't wait for the regulator'

On the stress in the banking system, the report said banks can take advantage of the IBC to clean up their balance sheets and improve performance on a sustained basis to remain competitive. Instead of waiting for regulatory directions, banks can file for insolvency proceedings on their own to promptly realise the best value for their assets, it said.

In conjunction, the RBI observed that banks need to strengthen their due diligence, credit appraisal and post-sanction loan monitoring to minimise the risks of such occurrence in future.

Meanwhile, RBI's Financial Stability Report cautioned that in the baseline scenario, GNPA's (gross non-performing assets) of the banking sector may rise from 10.2 per cent of gross advances in September 2017 to 10.8 per cent in March 2018, and to 11.1 per cent by September 2018.

An analysis of the transactions under the corporate insolvency resolution process indicates that the pace of cases admitted to the IBC has picked up with time. The number of corporate undergoing resolution at the end of the July-September quarter rose to 353 from 151 in the preceding quarter and 36 in the January-March quarter.

Another interesting insight is that operational creditors have been the most aggressive in initiation of corporate insolvency proceedings, though the number of financial creditors moving the Board for resolution has also been increasing.

In the July-September quarter, initiation of corporate insolvency transactions by financial creditors rose to 82 (from 31 in the preceding quarter) and by operational creditors to 101 (from 59). The same number in the case of corporate debtor was 31 (from 35).

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)
GENERAL SECRETARY**