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Dear Comrades,

14th June , 2017

News of Interest 14th JUNE

MOTIVATIONAL QUOTES

“DEFEAT IS NOT THE WORST OF FAILURES. NOT TO HAVE TRIED IS THE TRUE FAILURE. “
GEORGE EDWARD WOODBERRY

HIGHLIGHTS

- 1. RBI IDENTIFIES 12 ACCOUNTS WITH 25% OF BANKING SYSTEM'S NPAS FOR INSOLVENCY**
- 2. BANKS' CODE COMPLIANCE FALLS IN 2016-17**
- 3. SYNDICATE, CANARA, VIJAYA AND DENA BANKS MAKE PRESENTATIONS TO FINANCE MINISTRY ON CONSOLIDATION PLANS**
- 4. IDBI BANK ONLY PSB TO GET 'HIGH' RATING FOR CODE COMPLIANCE**
- 5. BANKS SAY NO TO CUSTOMERS SANS AADHAAR**

Business Standard

1. RBI identifies 12 accounts with 25% of banking system's NPAs for insolvency

The RBI will issue directives to banks on these large accounts

Anup Roy & Abhijit Lele

The Reserve Bank of India (RBI) on Tuesday said its internal advisory committee (IAC) had identified 12 accounts that covered about 25 per cent of the banking system's non-performing assets for immediate resolution under the Insolvency and Bankruptcy Code.

The gross bad debt of the Indian banking system as of March was at Rs 7.11 lakh crore, which means the 12 accounts would be responsible for about Rs 1.78 lakh crore.

The central bank did not give the names of the borrowers.

The government has amended the RBI Act, giving powers to the central bank to direct banks to take punitive action against individual accounts under the Code. Earlier the central bank could give directions only on an industry basis.

The process of appointing a professional to take over the management of a company and then come out with a solution to repay loans will take a long time and may not be a workable solution, say corporate lawyers.

The process begins with the banks approaching the National Company Law Tribunal (NCLT) to appoint a professional to manage a company even as the existing board gets suspended. The professional gets 180 days to come up with a workable solution for the company so that it can repay its loans. This timeline can be extended by another 90 days. If the company fails to come up with a solution within the 270 days, a liquidator is appointed.

Banks and workers will then have to submit their claims to the liquidator. "The difference between the new code and the Board of Industrial and Financial Reconstruction is that the former has stringent timelines. Meanwhile, a promoter can move the High Court on various grounds, thus delaying the process," said RS Loona, managing partner, Alliance Corporate Lawyers.

Another lawyer said it would be difficult to understand any company's operations and business in 270 days and hence this may not be a workable solution for banks.

Bankers said the banking industry had prepared the files of 70 such cases which fitted the profile of being considered for insolvency. "Once the RBI comes up with a structure, the industry will send these cases, in accordance with the fitment," said a banking industry source.

However, a top banker also said there was very little new in the RBI statement as against expectations of bankers.

"Banks were ready to take the large NPA cases to the NCLT long ago. So, actually, lenders have lost a few months of precious time," the banker said, adding, now that work had been set in motion, the bankruptcy proceedings should stay on course to complete the process within 180 days.

According to bankers, getting seasoned and skilled bankruptcy professionals to handle big ticket cases is a challenge.

Also, as this is a large asset sale, it would be a mammoth task to find bidders with deep pockets. An exercise on this scale is happening for the first time in India.

According to the RBI, the IAC explored 500 top exposures of the banking system and recommended for bankruptcy proceedings "all accounts with fund and non-fund based outstanding amount greater than Rs 5,000 crore, with 60 per cent or more classified as non-performing by banks as of March 31, 2016".

But the 12 accounts were referred immediately under the Code.

The central bank had earlier cautioned that stress was coming from a few sectors such as power, telecom, steel, textiles, and aviation.

Union Finance Minister Arun Jaitley later said the number of highly stressed accounts would number 40-50.

However, banks were not eager to highlight their problem of bad assets and needed RBI prodding to do so. Recently it transpired that private sector banks might have hidden a substantial portion of bad debts even after the RBI's asset quality review.

“As regards the other non-performing accounts which do not qualify under the above criteria, the IAC recommended that banks should finalise a resolution plan within six months. In cases where a viable resolution plan is not agreed upon within six months, banks should be required to file for insolvency proceedings under the IBC,” the RBI’s statement said.

The RBI said on the recommendation of the IAC, the central bank would start issuing directions to banks to file for insolvency proceedings under the Code in respect of the accounts identified.

“Such cases will be accorded priority by the National Company Law Tribunal (NCLT),” the RBI statement said.

To deal with the stressed sectors, the RBI in the past had introduced a number of schemes. But most of them failed. However, under the Code, the banks have to come to a resolution in a time-bound manner. The decision of the resolution process can be challenged.

“This is a commendable move, and is not discretionary as everything, including strategic debt restructuring and the scheme for sustainable structuring of stressed assets (S4A) cases, would be included in this. The important point is that lenders can now roll out the resolution process without any discrimination or fear of being questioned. It will also bring about completely different behaviour from borrowers. More importantly, the no-man’s land, in terms of legal provisions and regulations between all the three stakeholders — the lender, government and judiciary — has come down significantly,” said Ashvin Parekh of Ashvin Parekh Advisory Services LLP.

What’s next?

With the RBI’s Internal Advisory Committee identifying 12 accounts for immediate proceedings under the Insolvency and Bankruptcy Code, these cases are now expected to get immediate priority by the National Company Law Tribunal. This is the process that will be followed:

- The banks will file for these 12 debtors’ insolvency with NCLT
- NCLT will approve or disapprove cases after hearing all stakeholders
- Creditors/debtors may appeal at National Company Law Appellate Tribunal
- After go-ahead from NCLT, insolvency process begins
- The time given for completing bankruptcy proceedings is 6 months
- Company appoints interim resolution professional for 1 month to begin insolvency process
- A meeting of the committee of creditors will be called by the interim resolution professional
- Company appoints final resolution professional to take forward proceedings
- Company to go for liquidation if insolvency procedure is not completed within 6 months

2. Banks' code compliance falls in 2016-17

Only one-fourth of the 51 banks in the country are rated 'high' for complying with the norms

Nikhat Hetavkar

Banks in India continue to struggle with the quality of their customer service. The overall average code compliance score on customer service based on parameters such as grievance redressal, transparency and information dissemination fell to 77 in 2017 from 78 in 2015. According to compliance ratings by the Banking Codes and Standards Board of India (BCSBI), State Bank of India improved its credit score to 76 from 70 in 2015.

Only one-fourth of the 51 banks in the country are rated 'high' for complying with the norms, which focuses on fair treatment of customers.

BCSBI is an independent body set up by the Reserve Bank of India (RBI). The BCSBI code uses five parameters for the rating – information dissemination, transparency, grievance redressal customer centricity and customer feedback. Information dissemination is the parameter where most banks have performed poorly with 15 banks having a 'below average' rating. The banks that score below average on parameters of transparency and information dissemination are all PSBs with large number of branches engaging in mass banking.

Of the 12 banks rated 'high', only one public sector lender, IDBI Bank, featured in the list and the rest were private and foreign banks, according to the annual code compliance rating released by BCSBI on Tuesday.

But major private sector banks saw dip in their aggregate scores. Axis Bank (dip from 89 in 2015 to 86 in 2017). HDFC Bank (92 to 89), ICICI Bank (90 to 87) and Kotak Mahindra (90 to 87). Of the 17 private banks rated, eight banks got a 'high' rating while the rest got an 'above average' rating. The high rating is for score of 85 and above while above average for 70 to 85. The average rating is for score between 60 less than 70 and below average is 60.

BCSBI Chairman A C Mahajan said the body has told public sector banks (PSBs) they should update system information regularly, so it reaches the branches promptly. The BCSBI survey was undertaken across 2,733 branches with 80 per cent of them in urban and 20 per cent in rural and semi urban areas.

PSBs, all 26 of which were rated, continued to have poor code compliance. All 10 banks with an 'average' rating were from the public sector. Punjab and Sind Bank and Andhra Bank had the lowest compliance scores of 62 and 64, respectively.

Mahajan also said that banks often have excellent code compliance at metro branches but failed miserably when it came to rural branches.

BCSBI CEO Anand Aras said the body will revise the code before the end of this year. This revision will take into account the significant changes that the banking industry has undergone, like digital banking. The code had last been revised in 2014.

Economic Times

3. Syndicate, Canara, Vijaya and Dena Banks make presentations to Finance Ministry on consolidation plans

BY DHEERAJ TIWARI

Four state-run lenders — Syndicate BankBSE -0.19 %, Canara BankBSE 0.74 %, Vijaya BankBSE 0.77 % and Dena BankBSE 0.00 % — have made presentations to the finance ministry on their consolidation plans. Government think tank Niti Aayog has also been asked to offer its suggestions on the amalgamation of public sector banks. A senior government official confirmed both developments.

The government wants fewer, stronger and bigger state-run banks. State Bank of India absorbed five of its associate lenders and the Bharatiya Mahila Bank in April, creating a larger bank that accounts for a quarter of all outstanding loans.

The four banks made their presentations separately last week to senior finance ministry officials on various aspects including existing loan portfolios, deposits, bad loans, human resource practices, non-core assets and the geographical spread of their branches.

Based on the presentations, the government is expected to point out merger possibilities to the banks and nudge them in that direction. It has said previously that there will be no shotgun weddings. The finance ministry is expected to seek similar presentations from other state-run banks as well. There are as many as 21 state-run banks in India, making for a large number of small banks that punch below their collective weight. China's banks, for instance, dominate the top 10 list of global banks.

Finance minister Arun Jaitley had said on Monday, after reviewing the performance of state-run banks, that the government was "actively working" toward consolidation of public sector banks but declined to provide details, saying this was price-sensitive information. "Consolidation of banks was not on the agenda as far as this present meeting (on Monday) is concerned. But I can tell you, we are actively working in that direction," he had said.

The government official cited above said the presentations by the banks were a preliminary exercise and no plans have crystallised. "Some of these banks may be asked to close their subsidiaries as the government does not want conflicting subsidiaries if the lenders get merged," he said, adding that the finance ministry will also consider suggestions from the Niti Aayog.

"Aayog is an advisory body. Let us see if they can come up with some interesting ideas," said another finance ministry official aware of the development. "We will also seek presentation from other banks which are in the consideration zone," he said, adding that an ideal case would be to end up with three four large banks with a pan-India presence.

The first official cited said the government is open to merge two banks or more, provided it does not lead to a weaker entity.

"We are looking at consolidation from various scenarios which include business-mix, geography based consolidation, and that they are on the same IT platforms when it comes to banking operations," he said, adding that another major hurdle will be to get clearances from the Competition Commission of India.

The latest round of consolidation in April among state-run lenders — involving SBI and its associates--took place nearly seven years after State Bank of Indore was absorbed by SBI.

Business Line

4. IDBI Bank only PSB to get 'high' rating for code compliance

OUR BUREAU

If you are already a bank customer, either a depositor or a borrower, or a prospective customer, you may want to check the lender's code compliance rating relating to its commitment to customers and to micro and small enterprises.

According to the Code Compliance Rating of banks done by the Banking Codes and Standards Board of India (BCSBI) 2017, only one (unchanged from the previous survey conducted in 2015) out of 26 public sector banks and eight (nine in the previous survey) out of 17 private sector banks got 'high' rating for their adherence to code compliance.

IDBI Bank was the only public sector bank that got 'high (H)' (85 and above score out of 100) rating in two successive surveys.

The eight private sector banks that got 'high' rating are — Axis Bank, DCB Bank, HDFC Bank, ICICI Bank, IndusInd Bank, Kotak Mahindra Bank, RBL Bank and YES Bank.

The three foreign banks — Citibank, HSBC and Standard Chartered Bank — that were surveyed got 'high' ranking.

The code compliance rating, which is based on five parameters — information dissemination, transparency, grievance redressal, customer-centricity, and customer feedback — may be considered an indicator of the level of implementation of important code provisions at the grass root level of a bank.

A total of 51 banks (46 banks in 2015) were surveyed for code compliance in 2017. In the latest round, five urban co-operative banks were included. The survey is based on a sample size of 2.5 per cent of the branch network of 51 major banks.

While 12 banks got 'high' rating in the survey, 29 got 'above average (AA)' rating (70 to less than 85 score) and 10 got 'average (A)' rating (60 to less than 70 score). None of the banks surveyed fell in the 'below average' category.

The public sector banks, the ratings of which improved in the latest round, are: Central Bank of India, Corporation Bank, UCO Bank and Union Bank of India, with their rating going up to AA from A.

The public sector banks, the ratings of which came down a notch, are: Andhra Bank and Bank of Maharashtra (to A from AA).

In the private sector banks category, while DCB Bank's rating improved to 'H' from 'AA', Dhanlaxmi Bank's rating declined to 'AA' from 'H'.

AC Mahajan, Chairman, BCSBI, said: "We have shared the findings of the survey with the RBI."

He added that a revised code on commitment to customers and on commitment to micro and small enterprises is in the works and the same will be unveiled before January 2018.

BCSBI said a few important factors affecting customer service — quality, knowledge and attitude of staff, cost of services, response time and efficient delivery of services, and personalized handling of account, among others, are not captured in the survey. Hence, it may not strictly reflect the overall quality of customer service in a bank.

5. Banks say no to customers sans Aadhaar

PRIYANKA PANI

Banks seem to be tossing regulator RBI's guidelines out the window, with several of them insisting on linking Aadhaar numbers to new savings accounts, a *Business Line* survey has found.

According to the RBI, Aadhaar is only one of the many identification documents that can be furnished to open accounts, along with passport, PAN, driving licence and Voter ID.

Though banks officially deny that Aadhaar has been made mandatory, executives at several Mumbai branches that *Business Line* visited say verbal instructions have been issued to them.

Branches of leading private banks, including ICICI Bank and HDFC Bank, were turning down customers without Aadhaar.

When contacted, an ICICI Bank spokesperson said, "Aadhaar number/card is not mandatory to open a savings account with us. One can submit any of the eligible identity and address proof documents to open an account."

A customer at HDFC Bank was denied service as he did not possess an UID (unique identification) number. Another, who had a passport and PAN for proof of address and identification respectively, was also not allowed to open an account.

A spokesperson for HDFC Bank said, "Aadhaar seeding is not mandatory for opening a bank account. You will appreciate that we encourage customers who have an Aadhaar card to link it with their bank accounts."

A search on social media sites also led to several posts by disgruntled customers on the same issue.

Kotak Bank and SBI have said that while Aadhaar was not compulsory for new customers, existing users were required to link it to their accounts. An email sent to RBI did not elicit any response.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY

