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Dear Comrades,

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News of Interest 26th JUNE

MOTIVATIONAL QUOTES

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

HIGHLIGHTS

1. BANKS HAVE NO LIABILITY FOR LOSS OF VALUABLES IN LOCKERS: RBI
2. SBI CHIEF BHATTACHARYA EARNED RS 2.37 CR LESS THAN ICICI BANK CHIEF IN FY17
3. BANKS TO STEP UP ACTION AGAINST BIG DEFAULTERS
4. CO-OP BANKS CHEER CENTRE'S NOD TO DEPOSIT JUNKED NOTES WITH RBI
5. RBI'S NEW DIKTAT COULD SEE BANKS FACE RS 50,000 CRORE BLOW

Business standard

1. Banks have no liability for loss of valuables in lockers: RBI

Banks say relationship with customers with regard to lockers is that of landlord) and lessor

[Press Trust of India](#)

Do not expect any compensation for theft or burglary of valuables in safe deposit boxes of public sector banks as the locker hiring agreement absolves them of all liability.

This bitter truth was disclosed in an RTI response by the Reserve Bank of India (RBI) and 19 PSU banks.

Stung by the revelation, the lawyer who had sought information under the transparency law has now moved the Competition Commission of India (CCI) alleging "cartelisation" and "anti-competitive practices" by the banks in respect of the locker service.

He has informed the CCI that the RTI response from the RBI has said it has not issued any specific direction in this regard or prescribed any parameters to assess the loss suffered by a customer.

Even under the RTI response, all public sectors banks have washed their hands of any responsibility.

According to the information availed by the lawyer, the unanimous reason given by the 19 banks, including Bank of India, Oriental Bank of Commerce, Punjab National Bank, UCO and Canara, among others, is that "the relationship they have with customers with regard to lockers is that of lessee (landlord) and lessor (tenant)".

The banks have contended that in such a relationship, the lessor is responsible for his or her valuables kept in the locker which is owned by the bank.

Some banks, in their locker hiring agreements, have made it clear that any item stored in the locker is at the customer's own risk and he or she may, in their own interest, insure the valuables.

The common feature of all locker hiring agreements states, "As per safe deposit memorandum of hiring locker, the bank will not be responsible for any loss or damage of the contents kept in the safe deposit vault as a result of any act of war or civil disorder or theft or burglary and the contents will be kept by the hirer at his or her sole risk and responsibility.

"While the bank will exercise all such normal precautions, it does not accept any liability or responsibility for any loss or damage whatsoever sustained to items deposited with it. Accordingly, hirers are advised in their own interest to insure any item of value deposited in a safe deposit locker in the bank," they have said.

Aggrieved by the responses, the lawyer -- Kush Kalra -- raised questions before the CCI -- why not just keep the valuables at home after insuring them, instead of paying rent to the bank for a locker when it is not going to take any responsibility for the contents.

He alleged that all these banks, also including State Bank of India, Indian Overseas Bank, Syndicate Bank, Allahabad Bank and others have formed a "cartel" to indulge in such "anti-competitive" practices.

He further alleged that the bank by forming an association or cartel is "trying to limit the improvement of services which is directly affecting the competition in the market and interests of the consumer".

The lawyer has sought a probe under the Competition Act into the allegation of cartelisation by the banks in respect of the locker service.

2. SBI chief Bhattacharya earned Rs 2.37 cr less than ICICI Bank chief in FY17

While Chanda Kochhar got a pay of Rs 2.66 crore, Arundhati Bhattacharya took home only Rs 28.96 lakh

[Press Trust of India](#)

SBI, one of the world's 50 largest banks, pays only a small fraction to its top management as compared to private sector players like ICICI Bank and HDFC Bank. Former RBI governor Raghuram Rajan had flagged the low remuneration issue last August saying it makes difficult for state-owned banks to "attract top talent, especially a lateral entry".

SBI Chairman Arundhati Bhattacharya took home Rs 28.96 lakh last fiscal, which is pittance when compared to remuneration of her counterparts in private banks receive, according to analysis of annual reports of various banks.

In comparison, ICICI Bank MD and CEO Chanda Kochhar received a basic salary of Rs 2.66 crore last fiscal besides Rs 2.2 crore performance bonus to be paid over the next few years. In addition, she received allowances and perquisites of over Rs 2.43 crore.

The total compensation received by Kochhar in FY17 stood at Rs 6.09 crore.

Similarly, Shikha Sharma, MD and CEO of Axis Bank, took home a basic salary of Rs 2.7 crore, and Rs 1.35 crore as variable pay, besides host of perks and allowances like Rs 90 lakh HRA.

Yes Bank MD and CEO Rana Kapoor, who also happens to be promoter of the bank, took home Rs 6.8 crore as salary in 2016-17.

HDFC Bank's Managing Director Aditya Puri saw his remuneration rise marginally to Rs 10 crore and exercised stock options worth over Rs 57 crore during the last fiscal.

Speaking about public sector banks at a banking conference in Mumbai, Rajan had said state-owned banks tended to overpay at the bottom but underpay their top executives.

He jokingly said he himself was underpaid and the disparity made it harder to attract talent from outside at the top level in public sector banks.

On the business front, SBI, after merger with its subsidiary banks, caters to 42.04 crore customers with a market share of 23.07 per cent and 21.16 per cent in deposits and advances, as opposed to 18.05 per cent and 17.02 per cent respectively, before the merger.

Punjab National Bank, the nearest rival of SBI among PSBs post merger, will have a market share of 5.96 per cent, and 7.04 per cent in deposits and advances.

Remuneration comprises various components, including basic salary, allowances and perquisite, PF, superannuation allowances, gratuity and performance bonus and payment of performance bonus is deferred over a multi-year period.

Not only such high disparity in compensation makes it difficult for the government to hire top managers laterally at public sector banks, as pointed out by Rajan, it also impacts the motivation of public sector managers who have to fiercely compete with their private sector peers.

Business Line

3. Banks to step up action against big defaulters

OUR BUREAU

Following a series of meetings of top bankers over the last one week on the 12 large stressed assets that the central bank wanted them to tackle under the Insolvency and Bankruptcy Code (IBC), the stage is now set for lenders to approach the National Company Law Tribunal (NCLT) to kick start the proceedings under the Code.

The 12 large assets collectively account for about 25 per cent (or about ₹2 lakh crore) of the current gross NPAs in the banking system.

The assets that the banks will try to expeditiously resolve under the IBC include Bhushan Steel, Essar Steel, Electro steel Steels, Monnet Ispat, Amtek Auto, Alok Industries, and Lanco Infratech.

The IBC was enacted last year with the objective of expediting resolution of stressed assets and streamlining the process of liquidating a business.

A top public sector bank official said banks are in the process of filing applications with the NCLT for invoking the provisions of the IBC. "Once it (the application) is admitted, the committee of creditors will take over the assets. The committee will have technically-qualified, sectorial experts. Strict timelines under the IBC have to be adhered to.

Tight timelines

"The process can only be extended by another 90 days. In all, it (call on reviving an asset or liquidating it) has to be decided in 270 days. Given the tight timelines, we have to see how best it (IBC) will work in Indian conditions. This is a new experience for all of us. So, how exactly it goes, what type of complications can arise, nobody is aware," explained the banker quoted above.

If the experience with resolution of the 12 large stressed assets is good, then, going forward, bankers may themselves identify such assets and refer them to the IBC, said another top public sector bank official.

"Even without RBI intervention, if you actually look at it, majority of the bankers were in the process of referring stressed assets to NCLT.

Firm stand

"Borrowers were told that if they do not regularise their accounts or come up with a concrete revival plan of action, they will be referred to NCLT," said the official quoted above.

4. Co-op banks cheer Centre's nod to deposit junked notes with RBI

RUTAM VORA

The Centre's decision to allow District Central Cooperative Banks (DCCBs) to deposit demonetised currency notes lying with them with the Reserve Bank of India, has brought much cheer to the cooperative lenders.

"The move is well-appreciated by the DCCBs. This will not only help them do away with the demonetised notes which they had stored for the past eight months, but will also ensure additional liquidity with the DCCBs to help them resume lending in full-swing in the upcoming kharif-sowing season," Dilip Sanghani, Chairman of National Federation of State Cooperative Banks, told *Business Line*. Currently, lending activity at the DCCBs has slowed down due to lack of adequate cash, Sanghani said.

The DCCBs across the country are believed to be stuck with demonetised currency notes worth ₹23,000 crore, of which Maharashtra, with 31 DCCBs, has the largest pile at ₹2,770 crore, followed by Gujarat at ₹2,000 crore. Sanghani, who is also the Chairman of the Amreli District Central Cooperative Banks in Gujarat, said the

Federation has written a letter to the Union Finance Minister Arun Jaitley to reimburse the cost incurred by the DCCBs for maintenance and security of the junked notes and also compensate the banks with the interest foregone for the eight months.

"These banks had borrowed money from either Nabard or State governments. Their interest payments continued to accumulate. Hence, they need to be compensated as well," said Sanghani.

According to him, out of the 18 DCCBs across Gujarat, three from the districts of Vadodara, Amreli and Panchmahal had zero deposits of demonetised notes during the period prescribed — November 10-14, 2016. On November 8, 2016 Prime Minister Narendra Modi had announced demonetisation of high-value currencies of ₹500 and ₹1,000. From November 14 onwards, the RBI had barred the DCCBs from accepting old notes citing KYC issues.

In a gazette notification on Wednesday last, the Centre said that the DCCBs can deposit the specified bank notes (SBNs) under the Specified Bank Notes (Deposits by Banks, Post Offices and District Central Cooperative Banks) Rules, 2017 with the RBI and get the exchange value thereof by credit to the account of such banks, post offices or district central cooperative banks.

The notification gives such bank, post office or district central cooperative banks 30 days from the commencement of the rules to deposit the notes at any of the RBI branches.

Economic Times

5. RBI's new diktat could see banks face Rs 50,000 crore blow

BY SANGITA MEHTA

The Reserve Bank of India shocked bank chiefs late on Friday by demanding a steep increase in provisioning requirements for loans being referred to the bankruptcy courts, a move likely to take a Rs 50,000-crore toll on their earnings this fiscal, said two bankers familiar with the order.

RBI told banks to set aside at least 50% of the loan amount as likely losses for all cases referred to the insolvency process. The regulator also said that provisioning should be 100% those cases that don't get resolved in the initial mandatory period for loan restructuring and instead are forced into liquidation, said the executives.

The central bank's letter unnerved bankers who were expecting liberal provisioning norms after RBI ordered them to start insolvency proceedings against the country's top 12 defaulters, which include Essar Steel BSE 0.41 %, Bhushan Steel and Alok Industries.

Bankers worry that with bankruptcy courts as yet untested, many cases may not get resolved in the stipulated time and be headed for liquidation, which could double the provisioning for the next fiscal year as well, stretching out their woes.

In the confidential letter sent to the CEOs of commercial banks, RBI also said they will have to make a 100% provision on the unsecured loan as soon as a company is referred to the National Company Law Tribunal (NCLT) under the Insolvency and Bankruptcy Code (IBC).

"The saving grace here is that the RBI has given banks time of three quarters to spread the provisioning requirement," said a senior bank official. Banks can spread the provisions across four quarters from June 2017 till March 2018.

RBI did not respond to an email over the weekend seeking comment on the matter. It had directed banks on June 13 to take 12 large defaulters to bankruptcy court in a move aimed at speeding up the recovery of bad loans.

"The circular on revised provisioning norms for cases accepted for resolution under the IBC is being issued separately," RBI had said at the time.

These accounts include Essar Steel, Lanco Infratech Bhushan Steel, Bhushan Power and SteelAlok Industries, Amtek Auto, ABG Shipyard, Jyoti Structures, Era Infra, Jaypee Infratech, Electro steel Steels and Monnet Ispat.

The indebted dozen account for 25%, or Rs 2.5 lakh crore, of the total bad loans in the banking system. Bankers said that provisioning on these accounts is now in the range of 30-40% and thus they will need another Rs 30,000-50,000 crore by the end of this fiscal year. These provisions would be reversed one year after the resolution plan is implemented if the company shows a successful track record of repaying loans on time, said an official who saw the RBI's confidential letter.

Provisions will have to be made for other companies referred to NCLT. Finance minister Arun Jaitley said on June 17 that 81 companies had been referred to bankruptcy courts.

Under the latest RBI instructions, if a substandard account that requires 15% provision is referred to NCLT, this will jump to 50% for secured loan and 100% if it is unsecured. At the end of the process, if lenders and borrowers are unable to arrive at an amicable resolution and if NCLT orders liquidation of assets, RBI has said that banks should make a provision of 100% on such assets.

"In effect, banks will be very careful in dragging those companies to NCLT that have just slipped into bad loan category on fear of making high provisions," said a bank official. "However, if some other operational creditor takes a company to NCLT, banks will be left with no choice but to provide for it."

At the end of March 2017, listed commercial banks had set aside Rs 1.95 lakh crore as provisions, up 12% from the previous year, for bad loans that had been eating into bank earnings. If State Bank of India is excluded, commercial banks reported a total loss of Rs 10,096 crore in fiscal year 2017.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY