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FEDERATION

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Dear Comrades,

12th April, 2018

News of Interest 12th APR

Motivational Quotes

'It always seems impossible until it's done. 'Nelson Mandela

HIGHLIGHTS

1. ICICI case: Kochhar can take leave while probe is on, says ex Sebi chief
2. RBI imposes Rs 30 mn penalty on IDBI Bank
3. RBI governor Urjit Patel rejects easing NPA norms
4. Nomura: Right time for Kotak Bank to buy Axis Bank
5. 'We need to get back the confidence of our customers'

Business Standard

1. ICICI case: Kochhar can take leave while probe is on, says ex Sebi chief

Damodaran was responding to queries on whether ICICI CEO Chanda Kochhar should be asked to step down

Press Trust of India

Amid the controversy of an alleged conflict of interest involving ICICI Bank and its CEO Chanda Kochhar, former Sebi chief M Damodaran today said one option is for her to step down for a period of "three or four months".

Damodaran said that there are three or four elements that need to be looked at, including that the reputation of the bank is on the block.

"Stakeholders are asking questions, institutional investors who are large shareholders are asking questions; the layperson who is reading newspaper reports is also asking questions. It could be a depositor also who is asking questions in the light of all of this and the fact that there is an investigation," he told business channel *ET Now*.

Responding to queries on whether Kochhar should be asked to step down, Damodaran said, "There are two ways -- one is for the CEO to step down and say I do not want any part of this. I will prove myself to be right as and when the procedure gets completed".

According to him, the other way is to "step down for a period of three or four months and say that alright while this thing is going on, I am not going to be there".

"...Get an external agency, request her to go on leave. She has worked hard enough all these years and I am sure could do with some leave. So, request her to go on leave for a while. She does not have to vacate the post forever and then see what the outcome of the investigation is," he noted.

There are allegations of conflict of interest and nepotism involving the bank and Kochhar in extending a loan to the Videocon Group.

According to reports, Kochhar's husband Deepak Kochhar had formed a joint venture with Videocon promoter Venugopal Dhoot for a business dealing in renewable energy and there were a string of transactions later which gave him full control of the venture after the exit of Dhoot.

Financial Express

2. RBI imposes Rs 30 mn penalty on IDBI Bank

The RBI on Wednesday said it has imposed a penalty of Rs 30 million on IDBI Bank for non-compliance with the directions issued by it on income recognition and asset classification norms

By: IANS

The RBI on Wednesday said it has imposed a penalty of Rs 30 million on IDBI Bank for non-compliance with the directions issued by it on income recognition and asset classification norms.

"The Reserve Bank of India (RBI) has imposed, through an order dated April 9, 2018, a monetary penalty of Rs 30 million on IDBI Bank Limited (the bank) for non-compliance with the directions issued by RBI on income recognition and asset classification (IRAC) norms," the central bank said in a statement.

The penalty has been imposed in exercise of powers vested in RBI under the provisions of Section 47A(1)(c) read with Section 46(4)(i) of the Banking Regulation Act, 1949, taking into account failure of the bank to adhere to the directions issued by RBI, it added.

It further said, the action is not intended to pronounce upon the validity of any transaction or agreement entered into by the bank with its customers.

3. RBI governor Urjit Patel rejects easing NPA norms

By Sangita Mehta

The Reserve Bank has ruled out any relaxation in bad loan rules, saying the tough norms will discipline borrowers and prevent banks from pushing distressed loans under the carpet, two senior officials, who did not want to be named, said.

This message was conveyed by RBI governor Urjit Patel to parliamentarians in a closed-door meeting held in New Delhi on Tuesday.

The revised rules of February 12 give banks direction on measures they should take once an account shows initial signs of weakness. Banks termed the changes harsh and feared it would lead to a steep rise in the share of bad loans.

According to the new rules, banks must work on a resolution plan from day one of a default and relevant plans must be put in place within 180 days.

If they fail to do this the loan has to be referred to the dedicated bankruptcy court. "The RBI is very clear that such measures are needed to clean the banking system and any dispensation could be misused," said a senior official who did not want to be identified. "The RBI has withdrawn all schemes because they were seen as ways of delaying the recognition of NPA and was resulting in banks restructuring their own books and not that of the borrowers," he added.

The RBI governor was accompanied by deputy governor N Vishwanathan and executive director Sudarshan Sen. RBI did not respond to an email sent by ET.

Under the revised rules, for a resolution plan to be considered valid, it has to be endorsed by all lenders in the consortium and the account can be upgraded only after the borrower repays 20% of the principal. The RBI also withdrew all debt restructuring schemes, such as converting outstanding debt into equity and giving longer tenure loans with a reset clause.

Soon after RBI concluded its meeting with Rajya Sabha members on Tuesday, bank chiefs held a separate meeting with them. During the meeting, lenders sought intervention from the members of the parliament in convincing the banking regulator to relax bad loans rules on stressed assets while terming them to be 'harsh' having zero tolerance of bad loans.

Bankers urged they be given a minimum of 30 days to start the resolution of a loan and wanted the government's help in persuading RBI to relax the rules regarding 100% consent from all borrowers for restructuring a loan within 180 days.

The lenders sought continuation of old debt restructuring schemes for all their accounts where it has been triggered even if the scheme is not fully implemented. The RBI, while withdrawing all the debt recast schemes, said it will be allowed in cases where the scheme is fully implemented and not for cases where it is triggered but not yet applied.

"Although the government does not have a direct say on the regulation of banks, particularly those relating to accounting and recognition of bad loans, banks are hoping that they were able to convey their concerns about their precarious positions," said a bank chief, who did not want to be named.

The share of bad loans of banks has been rising steadily over the past three years touching Rs 9 lakh crore. Many banks expect bad loans to cross Rs 10 lakh crore with the revised RBI rules kicking in.

Business Line

4. Nomura: Right time for Kotak Bank to buy Axis Bank

BL INTERNET DESK

The time is ripe for Kotak Mahindra Bank to buy Axis Bank, says a report by brokerage firm Nomura Financial Advisory Services.

On Wednesday, Axis Bank shares were trading down 1.59 per cent at Rs 537.30 after hitting a high of Rs 552 and a low of Rs 534.10 on the BSE in a negative market. Kotak Bank shares were trading 0.38 per cent or Rs 4.20 higher at Rs 1,117.80 on the BSE at about 12 pm.

The brokerage's call comes in the wake of Axis Bank CEO Shikha Sharma deciding to cut her tenure to the end of this year. Sharma was appointed at Axis Bank in June 2009 by then Chairman PJ Nayak. On Monday, the bank in a filing to the bourses, announced that she has decided to cut down her fourth term and quit on December 31, 2018.

"With a very short time left in the CEO's term at Axis Bank, RBI's pressure on Axis Bank's management and with an asset quality clean-up exercise continuing, we believe this is the best opportunity for Kotak Bank to acquire or merge with Axis Bank," the brokerage said.

A likely deal between Kotak and Axis will make the combined entity the second largest private bank in the country in terms of loans and the largest in terms of branches.

"Our assessment suggests that Axis Bank will have to look for an external CEO. We believe this presents a great opportunity for Kotak Mahindra Bank to buy Axis Bank, which has got one of the largest liability/retail asset franchises," it said in a research report.

"From Axis Bank's perspective, we believe there will be limited push-back this time for any merger, given the loss of confidence that the regulator has expressed by not approving the renewal of the CEO's term and a vacuum in top management," Nomura said.

Nomura said that it was an opportune time for Kotak since Axis Bank had ramped up on the NPA recognition process and the majority of the bad news was now known. "Since the time of the last merger talks, Kotak Bank's stock has outperformed Axis Bank's by 30 per cent, making the acquisition more reasonable," it said.

"In case of M&A, the deal would be highly earnings per share-accretive for Kotak Bank even after paying a meaningful premium to Axis Bank shareholders," the brokerage added.

Nomura also said Kotak Bank would gain liability and retail asset size enough to rub shoulders with HDFC Bank. Importantly from the promoter's perspective, the acquisition should help in diluting the promoter's stake

down to the requirements stipulated by the RBI. The RBI requires promoters of private banks to bring down their holding to 15 per cent within 12 years of commencement of operations. The central bank has allowed Kotak Bank's promoter Uday Kotak to bring down his holding in the bank to 15 per cent by March 2020. Uday Kotak and his family currently hold 30.06 per cent stake in the company.

5. 'We need to get back the confidence of our customers'

SURABHI K RAM KUMAR

We are in business and we have been in business and will continue to be in business...We have had a problem, but we want to move on," said Sunil Mehta, Non-executive Chairman, Punjab National Bank. The public sector bank, which got embroiled in the ₹13,000-crore fraudulent letter of undertaking scam, is focussing on having better filtration when it comes to sourcing customers, doing business from a risk-adjusted return on capital (RAROC) point of view, and growing retail, SME and agriculture loans. In an interview with *Business Line*, Mehta underscored that there are many areas of business that the bank is strengthening. Excerpts:

What steps are the banks taking to get over the LoU scam?

We need to get back the confidence of our customers. To be able to do that, we are looking at our risk processes and controls..It is unfortunate that this (LoU) issue has come up. The risk process we are looking at is how to have a better filtration process...when a customer is allowed into the bank, we have more vigilance that we get good quality customers at that stage. It is a process which takes time.

We have to enhance the skill-sets of the people on the risk side for evaluating the customer...There is a term called 'smell test' in banking. The smell test comes with experience.

While improving risk assessment capabilities, we will ensure that risk-taking capacity of the bank is not taken away. If you re-engineer and get better risk assessment skills, it will increase the risk-taking capacity of the institution. Then you will understand the risk better.

Second, from the controls perspective, we have learnt a great deal from this episode on how to plug the loose ends and make sure we have much more resilient controls.

Given that your bank has a vast branch network, how do you prevent wrong-doings at the ground level?

Using technology is absolutely the way to go. We have 7,000-odd branches across the country, and we can't physically be there. Also, having a more robust system-based auditing process, we can see more (data) online as to how we are performing at different locations....credit administration is a very important piece. We have to be much more fleet-footed to understand that if there is any deterioration taking place, we need to take action upfront and calibrate our exposure and risks from that.

There are many other pieces that we are strengthening. For instance, risk adjusted returns. From the capital preservation point of view, the RAROC model that has now come into play. The bank board and the risk management committee of the board and, of course, the management committee of the board, are now very conscious of the fact that the (credit) risk they are approving, or increasing, must meet the risk hurdle rates on a risk-adjusted basis. The pricing will be dynamic...it will depend on the risks.

To get there, the risk rating model also has to be a dynamic model, because if your rating stays and doesn't change, then you don't know how to price it.

It is not just talk, it is action that is being implemented on the ground...Market dynamics are changing rapidly, and the bank has to constantly adapt to it.

What are the timelines and goals for the next one year? How will the bank get over the losses on account of LoU?

We will isolate our problem and deal with it, but the rest of our people need to be out there to serve our customers. That is happening. Sometimes you find challenges that come up, but I can tell you that 69,980 people are doing business, except for the 20 who were unfortunately related to this issue. During the period of crisis, what I have seen is that the employees of the bank are working as hard as they can.

What is the scene on the credit growth front?

We have had 9.9 per cent credit growth despite adverse circumstances, and we will continue to push for credit growth. Sectorally, look at the corporate sector and break it up...some sectors have slowed down, some are still growing from a credit offtake point of view.

So, we are serving our customers; we are trying to make sure that with technology we can deliver much more value to them.

On the retail side, there is a strong focus, and we are looking at our target market – small and medium enterprises, housing, including affordable housing. It is producing good dividends for us. So, we are looking at each sector, and we are delivering on these goals.

We should have invested more in technology in previous years. We are now making the change happen. We are making a huge investment in technology and digital.

PSBs have started performing on the digital front – look at SBI. There is no reason why we can't do equally well. We have 100 million customers; it is no small number. We were able to get 17 million additional customers during the Jan Dhan (campaign). They are becoming very productive as they add to our CASA (current account, savings account) balances; there is a lot of liquidity generation.

PNB has one of the best CASA in the system. That has not got impacted, which shows how strong the PNB brand is with our customers.

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)
GENERAL SECRETARY**

