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Dear Comrades,

16th April, 2018

News of Interest 16th APR

QUOTE OF THE DAY

'Change your thoughts and you change your world.'

Norman Vincent Peale

HIGHLIGHTS

- 1. Insurers set fresh terms for liability insurance for bank boards' directors**
- 2. IDBI prepares roadmap for NPA reduction, improving financial health**
- 3. ICICI-Videocon loan case: Two years back, RBI found no 'quid pro quo', reveal RBI docs**
- 4. RBI may loosen NPA norms to let banks breathe easy**
- 5. CVC asks banks to give details of frauds over ₹3 crore to plan preventive mechanism**

BUSINESS STANDARD

1. Insurers set fresh terms for liability insurance for bank boards' directors

The controversies linked to Chanda Kocher, Shikha Sharma and others are forcing insurance firms to renegotiate rates for directors' indemnity

Subhomoy Bhattacharjee

Insurance companies that sell liability insurance have begun to reprice the costs of cover they offer to directors on bank boards.

Market leaders in this line of business — New India Assurance and Tata AIG — have begun to reassess the premium on risk exposure of their portfolio in the director's and officer's (D&O) liability business. "The rules are simple. If there is a claim, our policies are locked in for payout for years, so it is better to renegotiate now," said a top source in the non-life insurance sector.

Insurers are in a hurry because as in the health and fire businesses, premiums have been reduced to a minimum. Most of the listed banks buy insurance policies to cover the action of their directors on the boards against any claims, whether of shareholders or customers or even other stakeholders.

"ICICI Bank and HDFC Bank, which are listed abroad, have D&O policies that would be valued at \$100 million," said a senior executive of a company that sells liability insurance. But other banks too have signed on to these policies. Insurance companies do not divulge the client-wise premium they have booked, but sources say the combined exposure of these banks could be close to Rs 1 billion.

The risks for non-life insurance companies have risen sharply because of the non-performing asset crisis. Insurance companies, through D&O policies, offer cover to firms against claims made by shareholders, customers or any other stakeholders for supposed losses suffered by them because of the actions of the boards of companies. This includes the money to pay for legal action to defend board members against class action suits that may be filed by investors.

ICICI Bank Chief Executive Officer (CEO) Chanda Kochhar is in the middle of a controversy over her role in sanctioning an Rs 32.5-billion loan to Videocon. The company, in turn, had allegedly invested in NuPower, run by her husband, Deepak Kochhar, in 2010. He has come under the scanner of the Central Bureau of Investigation, which is investigating allegations of a quid pro quo.

In unrelated developments, Axis Bank CEO Shikha Sharma, who had been given an extension of her term by the bank's board, has been asked by the Reserve Bank of India (RBI) to step down. And, public sector Punjab National Bank has been buffeted by controversies on whether its board should have been more vigilant in monitoring its human resource as mandated by the RBI.

K K Mishra, former CEO of Tata AIG and now an independent director on the boards of several companies, said: "The portents of higher risks in the D&O are going southwards." He said it made sense for financial companies to apprise insurers about the risks before any "insurable action" starts. "I believe the news flow has started," he said.

Insurance firms are rushing in because April is the month when they place their reinsurance business. At least one leader of the reinsurance business in a state-run insurance company said the rates for taking out cover against liability insurance had risen this year. "It had begun to rise last year because of the claims against Indian IT companies in US courts." The risks for

professional liability insurance have suddenly risen because of the boardroom battles coming to surface in Indian banks.

Farzan Khansaheb, chief underwriting officer at Raheja QBE, said, "No one in this space runs a benign book.

While the quantum of claims is rising, pricing the risks is still taking time to adjust".

The industry data shows there has been a spike in claims from D&O and E&O (errors and omissions insurance) in India from 2014-15. The claims have reached about \$1 billion for the latter. D&O numbers are rising in tandem.

"No one expects those to match E&O, but things get complicated because the costs keep rising through successive court hearings," said Swapnil Jain, senior associate at Tuli & Co, one of the major legal firms specializing in liability insurance. As the cases wind through courts, insured companies incur legal costs and keep billing insurers till the financial limit runs out.

Even though the cover is for a year, once a claim is triggered it runs through the course of the case. The Insurance Regulatory and Development Authority of India data shows industry-wide gross premium for liability insurance had clocked Rs 18.9 billion in 2016-17, rising at a compound annual growth rate of 14.7 per cent for the past four years.

That the stakes are rising is evident from the action of industry bodies too. Last month, the General Insurance Council had sent feelers to independent directors of several non-life insurance companies about the risks they run in the case of the motor insurance business. Several of these companies had made aggressive deals with motor car dealers to secure preferential access to consumers to buy insurance cover. The deals have come under question from the indirect tax department, while the insurance regulator has warned the companies to institute checks and balances in the business. The directors have been advised by the Council to make their position clear for any eventualities.

Jain concurs "tougher regulations and demands to implement those in full have made life for the directors tough in boardrooms. With faster resolution of cases, there is a higher chance for them to wind up in courts".

Financial Express

2. IDBI prepares roadmap for NPA reduction, improving financial health

State-owned IDBI Bank has prepared a comprehensive plan for improving its financial health and reducing stressed assets in light of RBI's recent communication pointing out various weaknesses in the lender

By: PTI

State-owned IDBI Bank has prepared a comprehensive plan for improving its financial health and reducing stressed assets in light of RBI's recent communication pointing out various weaknesses in the lender. The bank has also identified various non-core assets and real estate properties for sale to shore up its capital, sources said. The bank, which is one of the richest in terms of real estate assets, recently got them valued at market rate and made it part of core capital, sources said,

adding that this has strengthened the balance sheet of the lender. Last month, the bank concluded a deal to sell one of its buildings located in Bandra Kurla Complex (BKC) in the city to the market regulator Securities and Exchange Board of India (Sebi) for about Rs 1,000 crore. This was in addition to a strong dose of capital infusion to the tune of Rs 7,881 crore on March 27.

This was the remaining portion of capital infusion of Rs 10,610 crore planned by the Government of India for IDBI Bank for 2017-18, aimed at meeting the minimum Tier 1 capital requirements of IDBI Bank. A sum of Rs 2,729 crore was infused last year. Prior the recent series of capital infusion, the government had 77.8 per cent stake in the bank. RBI, in its communication to the Finance Ministry, had also raised the need for more robust risk assessment and improvement in credit underwriting standard. The bank is in the process of addressing these two concerns, sources said. It is to be noted that IDBI Bank is under RBI's prompt corrective action (PCA) framework. Gross non-performing loans were pegged at Rs 50,622 crore at the end of December 2017, 24.72 per cent of advances.

It reported a net loss of Rs 1,542 crore in the December 2017 quarter. Strategies have been drawn to ensure that the NPAs are reduced in a structured manner by taking help of Insolvency and Bankruptcy Code (IBC) and other means, sources said. Further, RBI's recent guidelines have also set strict timeline for recovery of various stressed assets under the IBC. The central bank has withdrawn the mechanism which included Corporate Debt Restructuring Scheme, Strategic Debt Restructuring Scheme (SDR) and Scheme for Sustainable Structuring of Stressed Assets (S4A). The Joint Lenders' Forum (JLF) as an institutional mechanism for resolution of stressed accounts was also discontinued.

3. ICICI-Videocon loan case: Two years back, RBI found no 'quid pro quo', reveal RBI docs

RBI had two years back conducted a detailed scrutiny to probe allegations of impropriety in ICICI Bank extending loans to Videocon Group but found no proof of any "quid pro quo" or reciprocal benefits, according to RBI documents

By: PTI |

The Reserve Bank of India had two years back conducted a detailed scrutiny to probe allegations of impropriety in ICICI Bank extending loans to Videocon Group but found no proof of any "quid pro quo" or reciprocal benefits, according to RBI documents. The RBI had undertaken a scrutiny in mid-2016 after the Prime Minister's Office referred to it allegations of ICICI Bank CEO Chanda Kocher's husband, Deepak reaping windfall gains from his association with businessman Venugopal Dhoot, whose Videocon Group is a large debtor to ICICI. The RBI, which is the regulator for the banking sector, in its first response, sometime in mid-July of 2016, stated that ICICI Bank had sanctioned a loan of Rs 1,730 crore to the Videocon Group in 2012 as part of a debt consolidation programme undertaken through a consortium of banks led by the State Bank of India, according to the documents and sources with direct knowledge of the matter. It went on to state that it was difficult to establish any conflict of interest in the sanctioning of the loan but flagged that it was not able to determine the sources of funding in some of the transactions involving Deepak Kocher's renewable energy venture NuPower.

The source of funding was critical for ascertaining the legitimacy of NuPower transactions, the RBI had said, adding that it was for investigative agencies to ascertain that. Later in December that year, RBI gave a detailed response to allegations of "quid pro quo" in loan sanctioned to the Videocon Group in 2007-08 and 2012, saying ICICI Bank was a part of the debt recast programme of Rs 20,195 crore by a consortium of banks led by SBI, where ICICI Bank's share was Rs 1,750 crore. RBI stated that 'quid pro quo' could not be established as ICICI Bank had to take a share like other banks in the consortium, they said. The central bank said the transfer of ownership of NuPower Renewables Ltd, which Deepak had set up with Dhoot family in December 2008, by Videocon was an unrelated event outside the banking domain. Such a transfer can only be examined by Sebi (Securities and Exchange Board of India) or Ministry for Corporate Affairs (MCA). On the investment in NuPower coming from Mauritius, the RBI had stated that the funds had come under the automatic route and reported to the central bank and no violation was reported.

According to the RBI papers, the central bank had left it to the Department of Financial Services in the Ministry of Finance to investigate if there was a non-disclosure of related party transaction or if there were FEMA (Foreign Exchange Management Act) violations. The RBI, however, raised questions over the ownership of the Mauritius-based entity, First Land Holding, which had invested Rs 325 crore in NuPower. Also, there was no clarity over the alleged Rs 64-crore loan (unsecured fully convertible debentures) given to NuPower by Supreme Energy, which was 99.99 per cent owned by Videocon chief Venugopal Dhoot at that time.

While Chanda Kochhar sat on the credit committee that approved the loan to Videocon, there are allegations of conflict of interest in her husband's brother, Singapore-based Rajiv Kochhar, performing debt-restructuring work on errant corporate borrowers from ICICI, including Videocon. The restructuring wasn't commissioned by the bank but by the borrowers. Last month, the board of ICICI Bank expressed full faith in Chanda Kochhar, whose current tenure as CEO is set to end on March 31, 2019. It had reviewed credit approval processes and found them to be robust, according to a March 28 filing by the Bank.

Economic Times

4. RBI may loosen NPA norms to let banks breathe easy

By Dheeraj Tiwari

The Reserve Bank of India (RBI) may relax some of the stringent norms for treatment of bad loans that it announced in February without diluting their spirit, said two officials aware of the development.

The finance ministry has made a case for providing some relief, especially for small and medium enterprises, given that the tighter rules could force defaulters into rapid bankruptcy, which could dent jobs generation, they said.

The one-day, non-performing asset (NPA) classification norm may be extended to 30 days and the requirement that a resolution plan has to be approved by all lenders could be lowered to 75%, they said. This will mean that only if any amount is due for more than 30 days will it be considered a default.

Under new rules announced by RBI in February, even a one-day delay would be considered a default. "The RBI is having a relook — we expect some relief without diluting the spirit of the norms . which is to ensure that promoters do not... delay the resolution process through IBC (Insolvency and Bankruptcy Code)," he said.

Both officials said this would not constitute a climb-down by the RBI, but a realignment of its position without pushing banks to the brink.

The central bank had defended the norms before a Rajya Sabha committee on subordinate legislation with regard to different aspects of NPAs last week.

The RBI reasons that the insolvency law was working fine and there was no need for any other mechanism.

"Their (government) view is that it should not lead to job losses, mostly in small and medium enterprises. It is expected that the RBI may soften its stance before the end of this month," the second official said.

The RBI had on February 12 scrapped the corporate debt restructuring (CDR), strategic debt restructuring (SDR), scheme for sustainable structuring of stressed assets (S4A) and the joint lenders' forum (JLF) that were used by banks to restructure debt defaults as the IBC process had settled into place.

Simultaneously, the new 'Resolution of Stressed Assets-Revised Framework' called on lenders to identify assets "immediately on default", beginning with loans on which any amount was due from one to 30 days. Principal economic adviser Sanjeev Sanyal is said to have issued a strongly worded note criticizing the changes, especially the one-day rule. The new rules also require banks to inform the Central Repository of Information on Large Credits (CRILC) on a weekly basis of defaults by all borrowers in excess of `5 crore. This could mean that payments delayed for even a few days could spiral into a bigger problem for borrowers if the default status became public.

The government and bankers are of the view that the new norms would lower the chances of reviving stressed assets even further. Banks have also said that in some cases payments from various state authorities were delayed and allowing a 30-day period will not dilute the spirit of the guidelines. The other relief, the officials said, may come in the form of common guidelines issued for resolution of stressed assets that will have the Indian Banks' Association's approval.

RBI had directed that all lenders must put in place board-approved policies for the resolution of stressed assets. "Now every board could have a different policy and that would impact cases of consortium loans," said one of the officials cited above. The possibility of common or broader guidelines is being examined, he said.

With regard to power sector loans, lending consortiums include non-banking financial institutions (NBFCs) such as Power Finance Corp and these new broader guidelines may also take care of them. "The existing guidelines exclude NBFCs," he said.

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Business Line

5. CVC asks banks to give details of frauds over ₹3 crore to plan preventive mechanism

PTI

The probity watchdog Central Vigilance Commission has asked banks to give details of any fraud worth over ₹3 crore to devise a preventive mechanism.

Because this data is originally lying with respective banks and the Reserve Bank of India. We felt if we know what kind of frauds are happening and their reasons could be analyzed, then some preventive steps can be taken (to check them), Central Vigilance Commissioner KV Chowdary told *PTI*.

Underscoring the need for a detailed research on the subject, which CVC has initiated, he said the exercise to collect and analyze data is to find out what kind of frauds are happening in the banks.

So we have started to collect data. We have got some portion of data. The remaining data is yet to come. We have analyzed, I think about 100 cases and have tried to see whether they fall into a particular pattern, Chowdary said.

Suggests rotational transfer

His assertion assumes importance amid cases of large scale frauds reported in government-owned Punjab National Bank (PNB) and UCO Bank.

As part of the preventive mechanism, the Commission has been insisting on rotational transfer of bank employees working on sensitive posts, the Chief of probity watchdog said.

If the person cannot be shifted from one place to another, he may be shifted at least within the same place or from one branch to another or at least within the branch from one seat to another, he said.

Chowdary said there should be defined timelines for all the works done by banks to check frauds or any other irregularities.

He said the preventive vigilance mechanism in banks has to be strengthened.

The guidelines and operating procedures has to be strengthened. It has to be ensured that they are followed, Chowdary said.

He said there is a need for a more effective audit mechanism in banks to check any irregularities.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY

