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Dear Comrades,

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News of Interest 7th AUG

MOTIVATIONAL QUOTES

CONCENTRATED POWER IS NOT RENDERED HARMLESS BY THE GOOD INTENTIONS OF THOSE WHO CREATE IT. 'MILTON FRIEDMAN'

HIGHLIGHTS

1. PSBS RECOVER RS 222 BILLION FROM NPA ACCOUNTS VIA ONE-TIME SETTLEMENT
2. DENA BANK'S NET LOSS WIDENS TO RS 7.21 BN IN Q1 ON RISE IN NPA PROVISIONS
3. BAN ON LOUS/LCS: HOUSE PANEL SAYS RBI ACTED IN HASTE
4. GOVERNMENT TO HOLD TALKS WITH RBI TO LEAVE MORE CAPITAL WITH BANKS
5. BANKS LOST □32,000 CR TO FRAUDS IN FY2017-18
6. CONVERT SB A/C TO 'BASIC ACCOUNT' TO AVOID MAINTENANCE CHARGES: SBI

Business Standard

1. PSBs recover Rs 222 billion from NPA accounts via one-time settlement

The information presented in the Lok Sabha covers 19 nationalised banks

Abhijit Lele

Public Sector Banks (PSBs) have recovered over Rs 222 billion through one-time settlement (OTS) in 2.44 million accounts over the last three years as a part of cleaning up balance sheet. Banks seemed to have stepped up efforts the most in 2017-18 to get about Rs 90 billion from close to one million accounts.

This assumes significance in the light of Sashakt panel's advice for banks to resort to recoveries through schemes akin to OTS to settle dues of Non-Performing Assets (NPAs) up to Rs 500 million.

The information presented in the Lok Sabha covers 19 nationalised banks. It does not cover State Bank of India group and IDBI Bank.

In 2015-16, state-owned banks were able to arrive at a settlement in case of 0.69 million accounts and recovered Rs 64.6 billion. In the following year, 2016-17, they got Rs 67.8 billion from 740,000 accounts.

In 2017-18, Punjab National Bank (PNB) recovered Rs 13.75 billion from 240,000 accounts, followed by Rs 10.87 billion by Central Bank of India from 130,000 accounts and Union Bank of India raised Rs 8.28 billion from 80,000 accounts. According to RBI instructions, banks are required to have a loan recovery policy, which may cover negotiated settlements of NPAs. According to inputs from nationalised banks, all nationalised banks have in place OTS schemes. These schemes are in pursuance of board-approved policies of banks, and are typically oriented towards sectors such as agriculture, Micro Small and Medium Enterprises (MSMEs), weaker sections and education loans, and typically have an upper limit on the amount of NPAs.

Sunil Mehta panel, which penned the five-pronged approach termed "Sashakt" to resolve the pool of non-performing assets, has suggested a scheme akin to OTS for SMEs.

This approach will be applicable to assets that are less than Rs 500 million and contribute Rs 1.2 trillion to the PSBs' stressed asset pool.

These are predominantly sole banking assets and do not need coordination between multiple banks to resolve.

These companies are SMEs where the job creation potential is the most and the ability of the companies to survive in difficult times is the least.

Since resolution of these assets is completely under the control of a single bank, the resolution approached should be aligned to the individual bank, albeit under broad framework.

There should be customised resolution approaches for different types of assets and a well-defined time-bound process to resolve them.

For this purpose, banks should set up focused verticals with clear targets and staff this vertical appropriately. Banks should devise a template resolution approach for different types of stressed loans based on simple metrics and Standard Operating Process (SOP) for resolution. Banks should be setup up internal SME steering panel(s) for formulating and validating these schemes, including provision of additional funds.

The resolution under this approach should be non-discretionary, non-discriminatory and executed in a time-bound manner. Also, banks should put in place a robust monitoring process to ensure implementation of resolution happens within 90 days.

2. Dena Bank's net loss widens to Rs 7.21 bn in Q1 on rise in NPA provisions

The provisioning coverage for bad assets in the June quarter also increased to Rs 12.44 billion

Abhijit Lele

Dena Bank's net loss widened to Rs 7.21 billion for the first quarter (April-June, or Q1) of this fiscal year (2018-2019 or FY19) on a sharp rise in provisions for bad loans. The public sector bank had registered a net loss of Rs 1.32 billion in Q1FY18.

Under the Prompt Corrective Action (PCA) plan, the bank's total income fell 8 per cent year-on-year to Rs 24.1 billion.

Dena Bank is under PCA because of high bad loans. This has put it under restrictions on growing its loan book; it has to focus on recoveries, control expenses, and conserve capital.

The bank's gross non-performing assets (NPAs) or bad loans, as a percentage of gross loans, spiked to 22.69 per cent. In the year-ago period, it was 17.37 per cent. Sequentially also, NPAs were up from 22.04 per cent in March 2018.

In value terms, NPAs rose to Rs 158.66 billion, up from Rs 129.94 billion a year ago. However, sequentially, they were down from Rs 163.61 billion in March 2018.

The net NPAs fell to 11.04 per cent (Rs 57.04 billion) year-on-year, against 11.22 per cent (Rs 77.97 billion).

The provisioning coverage for bad assets in the June quarter also increased to Rs 12.44 billion, from Rs 4.34 billion set aside in same period of 2017-18.

The overall provisions and contingencies were at Rs 11.15 billion for April-June, 2018-19, as against Rs 5.22 billion in the same period of 2017-18.

The provision coverage ratio is 65.7 per cent as on June 30, 2018.

Financial Express

3. Ban on LoUs/LCs: House panel says RBI acted in haste

A parliamentary panel has said the Reserve Bank of India (RBI)'s ban on letters of undertaking/comfort in the wake of the \$2.2-billion fraud at Punjab National Bank was a "knee-jerk" reaction and suggested that such credit instruments be restored

By: FE Bureau

A parliamentary panel has said the Reserve Bank of India (RBI)'s ban on letters of undertaking/comfort in the wake of the \$2.2-billion fraud at Punjab National Bank was a "knee-jerk" reaction and suggested that such credit instruments be restored.

Some PNB staff at a Mumbai branch issued illegal LoUs/LoCs to jewellers Nirav Modi and Mehul Choksi, causing the biggest fraud in the Indian

banking history, which prompted the RBI to stop these instruments that were widely used in trade finance.

“It’s (banning LoUs/LCs) a typical case of throwing baby along with bath water and it must be stopped,” said a report by the Parliamentary Standing Committee on Commerce, headed by Rajya Sabha member Naresh Gujral.

It, however, recommended that adequate safeguards be built in the system to ensure LoUs/LCs can’t be abused. The report, presented in Parliament on Tuesday, also called for necessary steps to simplify and streamline the processing of letters of credit (another such instrument that wasn’t banned).

According to the report, export credit dropped 24.4% in the last fiscal and as a percentage of priority sector lending, it was only 1.74%. “The committee felt that such a decline in exports credit, along with discontinuance of the issuance of the LoU/LC, might not augur well for the future. In case of Nirav Modi and Choksi, these guarantees, issued fraudulently, were used by them to borrow overseas to fund imports.

The report said: “The committee is not satisfied with the justification proffered by the RBI for discontinuing issuance of LoUs/LCs” and that the central bank has perhaps not held enough consultations before banning these instruments.

According to the committee, the RBI said it was advised by Foreign Exchange Dealers Association of India (FEDAI) to discontinue these instruments as “there was neither a standard format for LoUs/LCs nor a standard protocol, like the one prescribed by the ICC (International Chambers of Commerce) in respect of LCs (letters of credit) or documentary credit”.

However, representatives of public and private sector banks, many of whom were FEDAI members, told the parliamentary panel that LoUs/LoCs were an effective instrument for raising short-term credit in foreign currency.

All banks unanimously endorsed the fact that they were not flawed, the report said. “Instead, these were means of raising cheaper finance for trade.”

The Department of Financial Services (DFS) had sought comments from the central bank on the impact of scrapping LoUs/LCs on credit costs of short-term foreign currency loans. The central bank, according to the panel, said there was no comparative reporting on the quantum or cost of trade finance through LoUs/LCs against other available avenues. Apart from traders and exporters, the DFS had in March urged the central bank to review the restriction.

Earlier, Federation of Indian Export Organisations president Ganesh Kumar Gupta had said the ban could raise the cost of trade financing instruments by about 0.5% to 1%. According to a report by India Ratings, total buyer credit for the top 160 importers was Rs 33,100 crore in 2016-17, of which Rs 31,200 crore was to large importers.

Economic times

4. Government to hold talks with RBI to leave more capital with banks

By Dheeraj Tiwari Yogima Seth

The government will hold talks with the Reserve Bank of India (RBI) on relaxing capital norms for banks and bringing them in line with less stringent Basel III guidelines, said a senior government official.

Such a move would free up an estimated Rs 60,000 crore of capital at state-owned lenders, allowing them to step up lending to fuel the reviving economy, bolster weaker banks and reduce pressure on the government to provide capital. This follows discussions by the finance ministry with Niti Aayog and other stakeholders.

The minimum common equity (CET) Tier-I ratio as prescribed by RBI — money that banks need to set aside — stands at 5.5% of risk weighted assets against 4.5% under Basel III norms. There is a need to lower this to the level stipulated by the Basel Committee on Banking Supervision, said the official cited above. By freeing up capital, around Rs 6 lakh crore of lending can be achieved without any additional requirement for provisioning, the official said.

'No Need to Exceed Basel III Norm'

Niti Aayog vice chairman Rajiv Kumar told ET that there was no need to exceed the Basel III norm as 70% of the Indian banking system is state-owned and therefore implicitly backed by a sovereign guarantee. "Moreover, the depositor is well insured by the government against any insecurity," he said. The official cited above said that a February circular issued by the central bank allowed for an easing of the rules.

"The RBI has so far argued that this extra requirement is necessary because the asset-recognition norms were not stringent but now with the February 12 circular that also has been taken care of," he said, adding that a robust mechanism had been established through the Insolvency and Bankruptcy Code to resolve bad loans. Under the new rules announced by RBI in February, even a oneday delay in loan repayment will be considered a default.

"This relaxation will immensely help weaker banks which are finding it difficult to meet the regulatory capital adequacy ratio under the current dispensation," said Krishnan Sitaraman, senior director, Crisil Ratings, adding that the banking landscape had undergone a number of structural changes. The recognition of stressed assets as non-performing ones has increased significantly as have recoveries from resolution through the IBC process.

According to a recent Crisil report, given the higher-than-expected losses in the last financial year, more losses likely in the current fiscal and recall of additional tier-1 instruments by a few state-owned banks, the Rs 2.1lakh crore recapitalisation programme announced in October 2017 may be insufficient to meet capital requirements by the end of this fiscal.

Business Line

5. Banks lost ₹32,000 cr to frauds in FY2017-18

G NAGA SRIDHAR

Reserve Bank of India data reveals three-fold rise in the last 5 years.

There has been a jump in the quantum of funds involved in frauds in banks and other financial institutions during the year 2017-18.

As per data submitted by the Reserve Bank of India (RBI) to the Centre, the amount increased to ₹32,048 crore in the last financial year against ₹23,930 crore in the previous year.

For public sector banks, it had gone up significantly from ₹19,529 crore to ₹29,246 crore. Nationalised banks witnessed a steep increase in this regard.

This increase is noteworthy as it could not be prevented despite a directive to public sector banks to ensue a framework for timely detection of frauds.

For SBI, there was a decrease in the amount involved, though the number of reported frauds had gone up. It came down to ₹254,198 lakh from ₹303,642 lakh in the previous year. The number of frauds, however, had gone up to 981 from 794.

Private sector banks had also witnessed a decrease in the amount involved in frauds.

Apparently, banks became victims of high-profile customers, as the number of frauds were 2,883 against 2,709 in the financial year 2016-17.

A look into the last five years' data reveals that there has been a three-fold increase in public money that was lost. For instance, in 2013-14, the amount involved was ₹10,170 crore, and the number of reported frauds were only 4,306.

The RBI had, in February 2018, constituted a panel under the chairmanship of YH Malegam to look into factors that contribute to the increase in the number of frauds. It has also been asked to come up with measures to prevent frauds.

The Central Vigilance Commission (CVC) has analysed 17 large-value accounts across seven different sectors – gem and jewellery, manufacturing/industry, agro, media, aviation, service/projects and discounting of cheques.

In case of accounts classified as non-performing assets, banks have also been told to initiate staff accountability exercise within six months from the date of reporting. The outcome should be placed before the special committee of the board for monitoring and follow-up of frauds.

When contacted, an executive director of a public sector bank told *Business Line* that the increase was due to stringent investigations being undertaken by banks on corporate and other advances, and is likely to be under control over the next couple of years.

6. Convert SB a/c to 'basic account' to avoid maintenance charges: SBI

OUR BUREAU

State Bank of India has clarified that one could convert his/her Savings Bank (SB) account to a Basic Savings Bank Deposit (BSBD) account to avoid penalty for not maintaining average monthly balance (AMB).

The bank has given the clarification in response to a report in *BusinessLine* dated August 4 highlighting a total penalty of over ₹11,500 crore collected by public and private sector banks from customers for not maintaining AMB in the last four years.

SBI alone collected over ₹2,400 crore during 2017-18. Now, SBI has said that SB accounts, such as PMJDY/BSBD, and of pensioners/ minors/ social security benefit holders are exempted from the AMB requirement, and that charges would not be recovered from these accounts.

The bank has around 42.5 crore SB accounts, of which almost 40 per cent are under the exempted category. Customers also have the option to convert their existing SB accounts to BSBD accounts, free of cost.

It also reiterated that effective April 2018, the AMB requirement has been reduced up to 40 per cent, keeping in view the feedback from various stakeholders. Similarly, the bank has steeply reduced charges for non-maintenance of AMB up to 70 per cent in metro/urban and semi-urban categories. Charges in rural market were also reduced up to 75 per cent.

It claimed that its charges for non-maintenance of AMB are among the lowest in the industry.

Its charges between ₹5-15 (and GST) for various levels of shortfall in different areas. Its customers are required to maintain an average monthly balance of ₹3,000 for SB accounts in metros and urban areas, ₹2,000 in semi-urban and ₹1,000 in rural areas.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY

